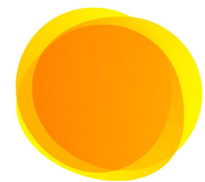




# NATIONAL MEETING SUMMER 2022



Date: 7/27/22

2022 Summer National Meeting  
Portland, Oregon

## GROUP SOLVENCY ISSUES (E) WORKING GROUP

Thursday, August 11, 2022

11:00 a.m. – Noon ET / 10:00 a.m. – 11:00 a.m. CT / 9:00 a.m. – 10:00 a.m. MT / 8:00am – 9:00 a.m. PT

Portland Ballroom 252-253—Level 2—Oregon Convention Center

### ROLL CALL

Justin Schrader, Chair	Nebraska	Judy Weaver	Michigan
Jamie Walker, Vice Chair	Texas	Debbie Doggett/Shannon Schmoeger	Missouri
Susan Bernard/Kim Hudson	California	Diana Sherman	New Jersey
Jack Broccoli/William Arfanis	Connecticut	Margot Small	New York
Charles Santana	Delaware	Dale Bruggeman/Tim Biler	Ohio
Virginia Christy/Carolyn Morgan	Florida	Melissa Greiner/Matt Milford	Pennsylvania
Cindy Andersen/Susan Berry/Eric Moser	Illinois	Ted Hurley	Rhode Island
Roy Eft	Indiana	Doug Stolte	Virginia
Kim Cross	Iowa	Amy Malm	Wisconsin
John Turchi	Massachusetts		

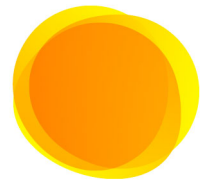
NAIC Support Staff: Bruce Jenson/Ramon Calderon

### AGENDA

1. Consider Adoption of Interim Meeting Minutes—Justin Schrader (NE) Attachment A
2. Discuss Comments Received on Proposed Revisions to Own Risk and Solvency Assessment (ORSA) Guidance Manual—Justin Schrader (NE)
  - A. Comment Matrix Attachment B
  - B. Updated Draft Attachment B-1
  - C. Comment Letters Attachment B-2
3. Discuss Comments Received on Proposed Revisions to the Financial Condition Examiners Handbook (FCEH)—Justin Schrader (NE)
  - A. Comment Matrix Attachment C
  - B. Updated Draft Attachment C-1
4. Discuss Comments Received on Proposed Revisions to the Financial Analysis Handbook (FAH)—Justin Schrader (NE)
  - A. Comment Matrix Attachment D
  - B. Updated Draft Attachment D-1
5. Consider Adoption of ORSA Guidance Manual and Referral of FAH and FCEH Revisions to Respective NAIC Groups—Justin Schrader (NE)
6. Any Other Matters—Justin Schrader (NE)



## NATIONAL MEETING SUMMER 2022



### 7. Adjournment

[https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member Meetings/E CMTE/GSIWG/Summer 2022 NM/GSIWG Agenda 8-11-22.docx](https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member%20Meetings/E%20CMTE/GSIWG/Summer%202022%20NM/GSIWG%20Agenda%208-11-22.docx)

Draft: 6/7/22

Group Solvency Issues (E) Working Group  
Virtual Meeting  
June 6, 2022

The Group Solvency Issues (E) Working Group of the Financial Condition (E) Committee met June 6, 2022. The following Working Group members participated: Jamie Walker, Vice Chair (TX); Kim Hudson and Susan Bernard (CA); Kathy Belfi (CT); Charles Santana (DE); Virginia Christy (FL); Kim Cross (IA); Cindy Andersen, Susan Berry, and Eric Moser (IL); Roy Eft (IN); Judy Weaver (MI); Lindsay Crawford (NE); Bob Kasinow (NY); Dale Bruggeman and Tim Biler (OH); Melissa Greiner (PA); Doug Stolte (VA); and Amy Malm (WI).

1. Discussed Proposed Revisions to the *Financial Condition Examiners Handbook*

Ms. Walker stated that the first agenda item for the call today is to discuss the work of the Financial Exam Drafting Group in developing proposed revisions to the *Financial Condition Examiners Handbook* to incorporate elements of the International Association of Insurance Supervisors' (IAIS's) Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) deemed appropriate for the U.S. system of solvency regulation. The Financial Exam Drafting Group consists of state insurance regulators from California, Connecticut, Missouri, and Nebraska, which met several times over the last six months to develop proposed revisions. The Financial Exam Drafting Group referenced and utilized work completed by the Financial Analysis Drafting Group in 2021 to guide its efforts, and it focused on those ComFrame considerations most relevant to onsite examination efforts in drafting its *Financial Condition Examiners Handbook* revisions. Ms. Walker thanked the drafting group and NAIC support staff for its efforts in developing proposed revisions for the Working Group to consider.

Bailey Henning (NAIC) provided an overview of the proposed *Financial Condition Examiners Handbook* revisions, and she noted that many of the topics addressed in ComFrame are already covered in the *Financial Condition Examiners Handbook* but may need to be addressed at a different level for internationally active insurance groups (IAIGs). This is because financial examinations traditionally have a legal entity focus, whereas ComFrame is focused on the governance, risk management, and control processes at the Head of the IAIG level. As such, Ms. Henning stated that proposed revisions are incorporated into various sections of the *Financial Condition Examiners Handbook* to indicate topics that the examination team should consider addressing at a different level or perspective—i.e., Ultimate Controlling Person or Head of the IAIG—when conducting IAIG examinations. She stated that the proposed revisions reference and utilize existing guidance developed by the Financial Analysis Drafting Group to promote consistency wherever possible. In addition, she stated that the Financial Exam Drafting Group coordinated with the Own Risk and Solvency Assessment (ORSA) Drafting Group in developing examination guidance for validating information provided in IAIG ORSA Summary Reports to ensure consistency in that area.

Ms. Walker thanked Ms. Henning for the overview, and she stated that the Working Group will discuss the exposure period and process for finalizing the proposed revisions after discussing the *NAIC Own Risk and Solvency Assessment (ORSA) Guidance Manual* (ORSA Guidance Manual) revisions.

2. Discussed Proposed Revisions to the ORSA Guidance Manual

Ms. Walker stated that the second agenda item for the call is to discuss the work of the ORSA Drafting Group in developing proposed revisions to the ORSA Guidance Manual to incorporate IAIS ComFrame elements deemed appropriate for the U.S. system of solvency regulation. The ORSA Drafting Group consists of state insurance regulators from Connecticut, Illinois, Iowa, Missouri, Ohio, and New York, which met several times over the last six months to consider revisions to the ORSA Guidance Manual. The ORSA Drafting Group referenced and utilized

the work completed by the Financial Analysis Drafting Group to guide its efforts, including the proposed revisions to Appendix C of the ORSA Review Template included in the *Financial Analysis Handbook*. Ms. Walker thanked the drafting group and NAIC support staff for its efforts in developing proposed revisions for the Working Group to consider.

Elisabetta Russo (NAIC) provided an overview of the proposed changes to the ORSA Guidance Manual, and she noted that most of the additions are only applicable to IAIGs where the U.S. is the groupwide supervisor. However, she stated that three minor updates are being proposed for all ORSA filers based on updated IAIS guidance:

- Clarification that non-insurance operations that present material and relevant risks to the insurer should be included in the scope of the ORSA Summary Report.
- Clarification that the ORSA Summary Report should cover the main goals and objectives of the insurers' business strategy.
- Additional expectations for the insurer to demonstrate its resilience to liquidity stresses, as well as a description of policies and procedures in place to manage liquidity risks.

For IAIG ORSAs, the proposed revisions indicate that one ORSA Summary Report should be provided to the U.S. groupwide supervisor covering all material groupwide insurance operations. In addition, a new Section V—Additional Expectations for Internationally Active Insurance Groups, is proposed to incorporate additional enterprise risk management expectations applicable to IAIG ORSAs, including enhanced liquidity considerations, expectations for integration between legal entity and group risk exposures, economic capital model expectations, and recovery options for severe stress scenarios. Finally, Ms. Russo stated that additional definitions were proposed for the glossary to define IAIG and reverse stress test, as both concepts are now addressed in Section V.

Ms. Belfi stated her support for the proposed revisions, including the minor clarifications being added for all ORSA filers, as well as the additional expectations for IAIG ORSAs. Ms. Walker thanked the ORSA Drafting Group for its efforts, and she stated that she would propose a 30-day public comment period for both sets of revisions. She stated that she would also ask NAIC staff to repost the proposed revisions to the *Financial Analysis Handbook* so they could be reviewed for consistency with the newly proposed revisions to the other publications.

Tom Finnell (America's Health Insurance Plans—AHIP) stated his agreement for exposing the changes to all publications together, but he stated that the volume of revisions could be difficult to review in 30 days. Ms. Walker stated that the only changes to the *Financial Analysis Handbook* from what was previously exposed would be to Appendix C of the ORSA Review Template, which should reduce the time necessary to review. Mr. Finnell asked if the re-exposure of the *Financial Analysis Handbook* would be limited to Appendix C. Ms. Walker stated that this should be the focus of reviewers, but the Working Group would be open to receiving comments on other consistency issues noted during the review. Hearing no other objections, Ms. Walker instructed NAIC staff to expose the proposed revisions to the publications for a 30-day public comment period ending July 8.

### 3. Received an Update on IAIS Activities

Ms. Walker stated that the IAIS Executive Committee recessed the activities of the IAIS Insurance Groups Working Group for 2022 to allow other IAIS subcommittees to advance the work related to the ComFrame. She stated that there are several other group-related projects ongoing, and NAIC representatives continue to monitor ongoing efforts in this area and will report on major initiatives to the Working Group as needed.

Having no further business, the Group Solvency Issues (E) Working Group adjourned.

**ORSA Guidance Manual ComFrame Exposure - Comment Matrix**

Commenter	#	Topic	How Addressed	ORSA GM Reference
ACLI	1	GWS Determination - Recommended clarification that IAIG determinations (including scope and Head of the Group) are made by the GWS and then applied to ORSA process, as opposed to being decided through the ORSA process.	Replaced the sentence "In addition, the insurer...." with ACLIs suggestion which is "The U.S. Global group-wide supervisor will identify the scope of group..." However, do not delete the last sentence. because all ORSAs should include the material and relevant risks in the scope of the ORSA.	I. C. General Guidance
ACLI	2	Scope of IAIG ERM Framework - Recommend that ERM expectations applicable to legal entities be limited to those legal entities "within the IAIG".	Accepted. Added "within the IAIG" to the text.	V. Additional Expectations for IAIGs
ACLI	3	Resilience to Liquidity Stresses - Recommend that ORSA liquidity language only be made applicable to insurers that are subject to the LST.	All insurers should explain how they manage liquidity risk. Moved paragraph at the end of the section and replaced "insurer should demonstrate its resilience" with "insurer should assess" to soften language in response to comments.	IV. A. Group Assessment of Risk Capital
ACLI	5	Flexibility in Governance Structures - Suggested language edits to clarify that there is flexibility in where and how various functions are placed within the group.	Added "to the extent" in the first paragraph and "whether located at the Head of the IAIG or within another entity of the IAIG" in the second paragraph.	V. Additional Expectations for IAIGs
ACLI	7	Reverse Stress Test - Suggest broadening the definition.	We want to identify in the ORSA those scenarios that result in insolvency or unviability of the insurer. We chose to call them "reverse stress test" for clarity and to single them out from other stresses that result in negative outcome. As such, left the definition in the glossary unchanged . However, created two separate bullet points in V to avoid confusing reverse stress tests with plausible macroeconomic stresses.	V. Additional Expectations for IAIGs; VI. Appendix - Glossary; and FAH VI-F. Appendix C

APCIA	1	IAIG Group ORSA - Suggest adding new paragraph to clarify expectations for aggregated group ORSA for IAIGs.	Replaced "If the insurer is not an IAIG with a US global group-wide supervisor this can be done as a combination of reports" with part of APCIA's language as follows: "If the group is an IAIG with a US global group-wide supervisor, a group ORSA Summary Report should be filed, otherwise a single or combination of reports may be used by the insurer to represent the group perspective." Changed to "incorporated into this manual <b>to the extent</b> deemed appropriate" .	I. A. Exemption
APCIA	2	Section V Overall Guidance - Suggest language modifications to allow greater flexibility in ERM program structure and location.		V. Additional Expectations for IAIGs
APCIA	3	Section V: Citing ComFrame - Suggest adding a preface to Section V with overarching concepts inspired by ComFrame without citing ComFrame.	We left the reference to ComFrame as source of requirements.	V. Additional Expectations for IAIGs
APCIA	4	Section V: Across entities/all legal entities - Suggest removing reference to legal entities	The Group needs be aware of how risk management is implemented at legal entity level, regardless of whether the risk management framework is centralized/decentralized.	V. Additional Expectations for IAIGs
APCIA	5	Section V: Consistency in ERM Framework - Suggest language modifications to allow recognition of different risk management strategies and frameworks among IAIGs due to business models in addition to supervisory requirements	We added "generally" .	V. Additional Expectations for IAIGs
APCIA	6	Liquidity Risk - Recommending that language on liquidity risk expectations be modified to indicate that liquidity risk is not a material risk for P/C groups.	All insurers should explain how they manage liquidity risk. Moved paragraph at the end of the section and replaced "insurer should demonstrate its resilience" with "insurer should assess" .	V. Additional Expectations for IAIGs
Travelers	1	References to ComFrame & ICP 16 - Recommend removal of references to ComFrame and ICP 16 in the Guidance Manual.	We left the reference to ICP16 as this explains that, if the group-wide supervisor is non-US, a foreign ORSA can be accepted if compliant with ICP16 requirements. Retained ComFrame references to be consistent with other publications.	I. C. General Guidance (ICP16) V. Additional Expectations for IAIGs (ComFrame)
Travelers	2	IAIG Group ORSA - Suggesting that discussion of aggregated group ORSA for IAIGs only be addressed in Section V.	We added working to clarify that ORSA should file one group ORSA on page 2 of the Guidance Manual.	I. A. Exemption

Travelers	3	Risk Prioritization - Suggest deleting the word "prioritization" from added guidance as not all insurers rank or prioritize their risks.	Rejected. Prioritizing risks is a key activity of risk management to determine what the key risks are.	II. Section 1 - Description of ERM Framework
Travelers	5	Liquidity Guidance - Added language is worded as a requirement for the insurer, as opposed to a consideration, which is how the introduction to the bulleted list reads. In addition, other specific language suggestions are made.	All insurers should explain how they manage liquidity risk. Moved paragraph at the end of the section and replaced "insurer should demonstrate its resilience" with "insurer should assess".	IV. Section 3 - Group Assessment of Risk Capital
Travelers	6	Section V: References to ComFrame - Recommend removal to avoid incorporation by reference.	We left the reference to ComFrame as source of requirements.	V. Additional Expectations for IAIGs
Travelers	7	Section V: Consistency in ERM Framework - Raised questions regarding the feasibility of consistent processes across legal entities.	Revised language by adding "generally consistent" and removed language about what differences across legal entities are acceptable.	V. Additional Expectations for IAIGs FAH VI-F, Appendix C
Travelers	8	Section V: Risk Management, Actuarial and IA Functions - Recommend language edits to narrow the scope of discussion expected on these functions in the ORSA. Also expresses concern over expected consistency of functions across entities.	Existing language and context should be enough to clarify that only the roles of these functions in regards to risk management should be described in the ORSA.	V. Additional Expectations for IAIGs
Travelers	9	Section V: EC Model - Expressing concerns over the level of detail expected to be presented on the EC model in the ORSA. Also expressing concerns over expectations regarding the presentation of recovery options.	Recovery option language has been amended. Level of disclosure in the ORSA for the economic capital model are not excessive. Added economic capital definition in glossary.	V. Additional Expectations for IAIGs; VI. Appendix - Glossary; and FAH VI-F, Appendix C
Travelers	10	Section V & FAH Appendix C - Need to clarify expectations regarding independent review of risk assessment framework.	Clarified that "the insurer" is responsible for reviewing the risk assessment framework. The GM requirements are designed for insurers. Any recommendation for lead states is addressed in the FAH and FCEH, not in the GM.	V. Additional Expectations for IAIGs
Travelers	11	Section V: Economic Capital - Need to define the term and acknowledge that that it may not be consistently calculated across the industry.	Added term to glossary.	VI. Appendix - Glossary
Travelers	12	Section V: Recovery Options - Recommend language edits and clarification of what is expected in this area.	Recovery option language has been amended to say that "The IAIG may be asked by the group wide supervisor to develop a recovery plan, if warranted."	V. Additional Expectations for IAIGs

NAMIC	1	IAIG Group ORSA - Recommend language edit to state that the "ORSA Summary Report <u>MAY</u> be filed at the Head of the IAIG".	Comframe requires a group ORSA to be filed at the Head of the IAIG level and regulators feel it is important to incorporate this concept into GM.	I. C. General Guidance
NAMIC	2	Recovery Plan - Suggest removal of language indicating that the GWS "should determine whether to require that the IAIG develop a formal recovery plan" as there is no explicit authority in state law for a regulator to require a recovery plan.	As discussed under Travelers #12 above, the guidance has been amended to read: "The IAIG may be asked by the group wide supervisor to develop a recovery plan, if warranted." Broad authority available in Model #440 to compel development of additional measures to address enterprise risk.	V. Additional Expectations for IAIGs





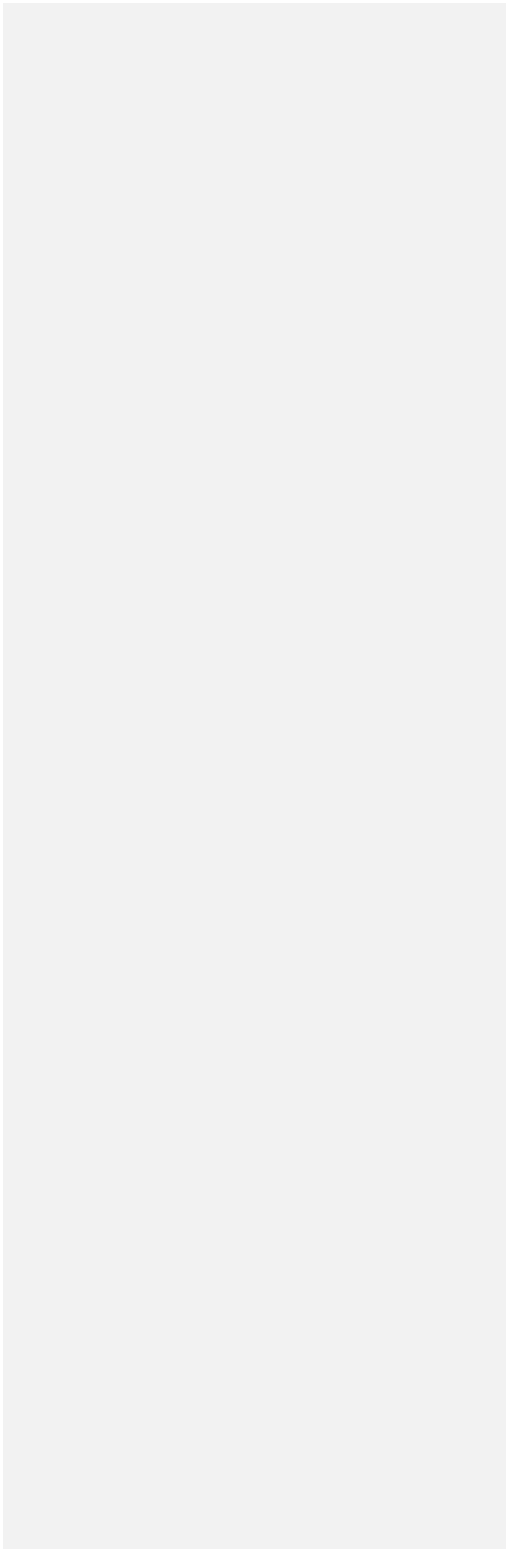
# **NAIC OWN RISK AND SOLVENCY ASSESSMENT (ORSA) GUIDANCE MANUAL**

**Maintained by the  
Group Solvency Issues (E) Working Group  
of the Financial Condition (E) Committee**

As of

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**Date:** ~~December 4, 2017~~ August 11, 2022

**To:** Users of the *NAIC Own Risk and Solvency Assessment (ORSA) Guidance Manual*

**From:** Group Solvency Issues (E) Working Group

This edition of the *NAIC Own Risk and Solvency Assessment (ORSA) Guidance Manual* has been revised from the previous edition. The following summarizes the most significant changes since the December 2017 edition:

- ~~1. Added various updates throughout the Guidance Manual to incorporate additional elements deemed appropriate by state regulators including additions from International Association of Insurance Supervisors (IAIS) guidance to incorporate:~~
  - ~~a. Enhancements related to the treatment and disclosure of liquidity and business strategies within the ORSA; and~~
  - ~~b. Enhancements related to additional considerations relevant to Internationally Active Insurance Groups (IAIGs) as outlined in the Common Framework for the Supervision of IAIGs (ComFrame).~~
1. Added various updates throughout the Guidance Manual to incorporate additional elements deemed appropriate by state regulators including additions from International Association of Insurance Supervisors (IAIS) guidance to incorporate:
  - a. Enhancements related to the treatment and disclosure of liquidity and business strategies within the ORSA; and
  - b. Enhancements related to additional considerations relevant to Internationally Active Insurance Groups (IAIGs) as outlined in the Common Framework for the Supervision of IAIGs (ComFrame).

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**TABLE OF CONTENTS**

	<b>PAGE</b>
I. INTRODUCTION	1
A. EXEMPTION	1
B. APPLICATION FOR WAIVER	3
C. GENERAL GUIDANCE	3
D. MAINTENANCE PROCESS	5
II. SECTION 1 – DESCRIPTION OF THE INSURER'S RISK MANAGEMENT FRAMEWORK	8
III. SECTION 2 – INSURER'S ASSESSMENT OF RISK EXPOSURES	9
IV. SECTION 3 – GROUP ASSESSMENT OF RISK CAPITAL AND PROSPECTIVE SOLVENCY ASSESSMENT	10
A. GROUP ASSESSMENT OF RISK CAPITAL	10
B. PROSPECTIVE SOLVENCY ASSESSMENT	12
V. APPENDIX – GLOSSARY	14

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**The requirements outlined in this Manual are based on the requirements of the *Risk Management and Own Risk and Solvency Assessment Model Act* (#505). An insurer using this Manual should refer to the laws adopted by the insurer's state of domicile when determining its requirements for risk management, its Own Risk and Solvency Assessment (ORSA) and for preparing its ORSA Summary Report.**

## **I. INTRODUCTION**

The purpose of this Manual is to provide guidance to an insurer and/or an insurance group of which the insurer is a member (hereinafter referred to as “insurer” or “insurers”) with regard to reporting on its Own Risk and Solvency Assessment (ORSA) [as required by the domestic state's version of the *Risk Management and Own Risk and Solvency Assessment Model Act* (#505)].

The ORSA, which is a component of an insurer's enterprise risk management (ERM) framework, is a confidential internal assessment appropriate to the nature, scale and complexity of an insurer conducted by that insurer of the material and relevant risks identified by the insurer associated with an insurer's current business plan and the sufficiency of capital resources to support those risks. As described below, an insurer that is subject to the ORSA requirements will be expected to:

- (1) Regularly, no less than annually, conduct an ORSA to assess the adequacy of its risk management framework, and current and estimated projected future solvency position;
- (2) Internally document the process and results of the assessment; and
- (3) Provide a confidential high-level ORSA Summary Report annually to the lead state commissioner if the insurer is a member of an insurance group and, upon request, to the domiciliary state regulator.

The ORSA has two primary goals:

1. To foster an effective level of ERM at all insurers, through which each insurer identifies, assesses, monitors, prioritizes and reports on its material and relevant risks identified by the insurer, using techniques that are appropriate to the nature, scale and complexity of the insurer's risks, in a manner that is adequate to support risk and capital decisions; and
2. To provide a group-level perspective on risk and capital, as a supplement to the existing legal entity view.

An insurer that is subject to the ORSA requirement should consider the guidance provided in this Manual when conducting its ORSA and compiling its ORSA Summary Report. As the process and results are likely to include proprietary and forward-looking information, any ORSA Summary Report submitted to the commissioner shall be confidential by state law.

### A. Exemption

An insurer shall be exempt from maintaining a risk management framework, conducting an ORSA and filing an ORSA Summary Report, if:

- a. The individual insurer's annual direct written and unaffiliated assumed premium, including international direct and assumed premium but excluding premiums reinsured with the Federal Crop Insurance Corporation and the National Flood Insurance Program, is less than \$500 million; and
- b. If the insurer is a member of an insurance group and the insurance group's (all insurance legal entities within the group) annual direct written and unaffiliated assumed premium, including international direct and assumed premium but excluding premiums reinsured with the Federal Crop Insurance Corporation and the National Flood Insurance Program, is less than \$1 billion.

If the insurer does not qualify for exemption, upon the commissioner's request, and no more than once each year, an insurer shall submit to the commissioner an ORSA Summary Report that contains the information described in this Manual. ~~If the insurer is not an IAIG with a US global group-wide supervisor this can be done as a combination of reports.~~ If the group is an IAIG with a U.S. global group-wide supervisor, a group ORSA Summary Report should be filed, otherwise a single or combination of reports may be used by the insurer to represent the group perspective. For example, the property/casualty insurers within a group could be included in one ORSA Summary Report or combination of reports, and the life insurers within the same group could be included in another ORSA Summary Report or combination of reports, if those groups operate under different ERM frameworks. Notwithstanding any request from the commissioner, if the insurer is a member of an insurance group, the insurer shall submit the ORSA Summary Report(s) required by this Manual to the lead state commissioner of the insurance group. The lead state is determined by the procedures within the *Financial Analysis Handbook*.

If an insurer qualifies for exemption pursuant to paragraph a., but the insurance group of which the insurer is a member does not qualify for exemption pursuant to paragraph b., then the insurer may supply an ORSA Summary Report in any combination, as long as every insurer within the group is covered by the ORSA Summary Report(s).

If an insurer does not qualify for exemption pursuant to paragraph a., but the insurance group of which it is a member qualifies for exemption under paragraph b., then the only ORSA Summary Report that may be required is the report of that insurer. However, such exemption does not eliminate the requirement for any insurer that is subject to Model #505 to complete Section III – Group Assessment of Risk Capital and Prospective Solvency Assessment.

Notwithstanding the above exemptions, the commissioner may require the insurer to maintain a risk management framework, conduct an ORSA and file an ORSA Summary Report based on unique circumstances including, but not limited to, the type of business written, ownership and organizational structure, federal agency requests, international supervisor requests, regulatory concerns about rapidly growing concentration of risk or risk exposure.

A commissioner also may require the insurer to maintain a risk management framework, conduct an ORSA and file an ORSA Summary Report if the insurer has triggered an RBC company action

**Commented [A1]:** Post Exposure: Changed based on ACLIs letter



level event, meets one or more of the standards of an insurer deemed to be in hazardous financial condition, or otherwise exhibits qualities of a troubled insurer, as determined by the commissioner.

If an insurer that qualifies for an exemption subsequently no longer qualifies for that exemption due to changes in premium, as reflected in the insurer's most recent annual financial statement or in the most recent annual financial statements of the insurers within the insurance group of which the insurer is a member, the insurer shall have one (1) year following the year the threshold is exceeded to comply with the ORSA requirements.

## **B. Application for Waiver**

An insurer that does not qualify for exemption may apply to the commissioner for a waiver from the requirements of the ORSA based upon unique circumstances. The commissioner may consider various factors including, but not limited to, the type of business entity, and volume of business written and material reduction in risk or risk exposures. If the insurer is part of a non-exempted insurance group, the commissioner shall coordinate with the lead state commissioner and the other domiciliary commissioners in considering the request for a waiver.

## **C. General Guidance**

The ORSA should be one element of an insurer's ERM framework. The ORSA and the ORSA Summary Report link the insurer's risk identification, assessment, monitoring, prioritization and reporting processes with capital management and strategic planning. Each insurer's ORSA and ORSA Summary Report will be unique, reflecting the insurer's business, strategic planning and approach to ERM. The commissioner will utilize the ORSA Summary Report to gain a high-level understanding of the insurer's ORSA. The ORSA Summary Report will be supported by the insurer's internal risk-management materials.

To allow the commissioner to achieve a high level understanding of the insurer's ORSA, the ORSA Summary Report should discuss three major areas, which will be referred to as the following sections:

- **Section 1** – Description of the Insurer's Risk Management Framework
- **Section 2** – Insurer's Assessment of Risk Exposure
- **Section 3** – Group Assessment of Risk Capital and Prospective Solvency Assessment

When developing an ORSA Summary Report, the content should be consistent with the ERM information that is reported to senior management and/or the board of directors or appropriate committee. While some of the format, structure and content of the ORSA Summary Report may be tailored for the regulator, the content should be based on the insurer's internal reporting of its ERM information. The ORSA Summary Report itself does not need to be the medium of reporting its ERM to the board of directors or appropriate committee, and the report to the board of directors or appropriate committee may not be at the same level of detail as the ORSA Summary Report.

In order to aid the commissioner's understanding of the information provided in the ORSA Summary Report, it should include certain key information. The ORSA Summary Report should identify the basis(es) of accounting for the report (e.g., generally accepted accounting principles,

statutory accounting principles or international financial reporting standards) and the date or time period that the numerical information represents. The ORSA Summary Report should also explain the scope of the ORSA conducted such that the report identifies which insurer(s) are included in the report. This may be accomplished by including an organizational chart. In subsequent years, the ORSA Summary Report should also include a short summary of material changes to the ORSA from the prior year, including supporting rationale, as well as updates to the sections listed above, if applicable.

The commissioner may develop a deeper understanding of the insurer's ERM framework upon examination or an annual risk-focused update. Additionally, as part of the risk-focused analysis and/or examination process, the commissioner may also request and review confidential supporting materials to supplement his/ her understanding of information contained in the ORSA Summary Report. These materials may include risk management policies or programs, such as the insurer's underwriting, investment, claims, asset-liability management (ALM), reinsurance counterparty and operational risk policies.

This Manual is intended to provide guidance for completing each section of the ORSA Summary Report. The depth and detail of information is likely to be influenced by the nature and complexity of the insurer and should be updated at least annually for the insurer. The insurer is permitted discretion to determine how best to communicate its ERM processes. An insurer may avoid duplicative information and supporting documents by referencing other documents, provided those documents are available to the regulator upon examination or upon request. In order to ensure that the commissioner is receiving the most current information from an insurer, the timing for filing the ORSA Summary Report during the calendar year may vary from insurer to insurer, depending on when an insurer conducts its internal strategic planning process. In any event, the ORSA Summary Report shall be filed once each year, with the insurer apprising the commissioner as to the anticipated time of filing.

The ORSA Summary Report shall include a signature of the insurer's chief risk officer or other executive having responsibility for the oversight of the insurer's ERM process attesting to the best of his/her belief and knowledge that the insurer applies the ERM process described in the ORSA Summary Report and that a copy of the ORSA Summary Report has been provided to the insurer's board of directors or the appropriate committee.

An insurer may comply with the ORSA requirement by providing the most recent report(s)<sup>1</sup> filed by the insurer or another member of an insurance group of which the insurer is a member to the commissioner of another state or to a supervisor or regulator of a foreign jurisdiction, if that report provides information that is comparable to the information described in this Manual. If a U.S. state insurance commissioner is the global group-wide supervisor of an IAIG, the U.S. state insurance commissioner should receive the ORSA Summary Report covering all material group-wide insurance operations. In addition, the insurer should work with U.S. global group-wide supervisor to identify the scope of the group, whether the group is an IAIG, identify the Head of the IAIG (using the guidance contained in the NAIC's Financial Analysis Handbook) and determine which non-insurance operations (if any) within the group should be included within the scope of the group, and therefore the ORSA Summary Report. However, for all ORSA filers, the non-insurance

<sup>1</sup>Reports filed to foreign jurisdictions that are a report on an insurer's ORSA shall henceforth for purposes of this Manual be referred to as an "ORSA Summary Report."

operations that present material and relevant risks to the insurer should be included in the scope of the ORSA Summary Report.

If the U.S. is not the global group-wide supervisor, the insurer may file ORSA Summary Reports encompassing, at a minimum, the U.S. insurance operations, as long as the lead state receives ORSA Summary Reports encompassing the non-U.S. insurance operations from the global group-wide supervisor. If an ORSA Summary Report encompassing the non-U.S. insurance operations is not provided by the global group-wide supervisor, it should be provided by the insurer. If the insurer files an ORSA Summary Report encompassing only the U.S. insurance operations, and in it the insurer states that the U.S. ERM framework is based on the insurers' global ERM framework, then the global ERM framework should be explained either within the U.S. ORSA Summary Report or in an ORSA Summary Report encompassing the non-U.S. insurance operations and be provided to the lead state at a time agreed to by the insurer and the lead state. If the report is in a language other than English, it must be accompanied by a translation into the English language. The commissioner should discuss with the global group-wide supervisor from the relevant foreign jurisdiction(s) the report received ~~from the global group-wide supervisor~~ to inquire of any concerns and to either confirm that the report was compliant with the foreign jurisdiction's requirements or consistent with the applicable principles outlined in the International Association of Insurance Supervisors (IAIS) Insurance Core Principle (ICP) 16: Enterprise Risk Management (ERM), as well as this Manual to determine if additional information is needed. The commissioner will, where possible, avoid creating duplicative regulatory requirements for internationally active insurers.

In analyzing an ORSA Summary Report, the commissioner will expect that the report represents a work product of the ERM framework that include all of the material risks identified by the insurer to which an insurer or insurers (if applicable) is exposed.

The ORSA Summary Report may assist the commissioner in determining the scope, depth and minimum timing of risk-focused analysis and examination procedures. For example, insurers may have varying ERM frameworks, ranging from a business plan to a combination of investment plans and underwriting policies to more complex risk-management processes and sophisticated modeling. Insurers with ERM frameworks appropriate to their risk profile may not require the same scope or depth of review upon examination and analysis as those with less relatively comprehensive ERM frameworks. Therefore, the insurer should consider whether the ORSA Summary Report demonstrates the strengths of its framework, including how it meets the guidelines within this Manual for the relative risk of the insurer.

In addition to the ORSA Summary Report, the insurer should internally document the ORSA results to facilitate a more in-depth review by the commissioner through analysis and examination processes. Such review may depend on several factors, such as the nature and complexity, financial position and/or prioritization of the insurer, as well as external considerations such as the economic environment. These factors may result in the commissioner requesting additional information about the insurer's ERM framework through the financial analysis or examination processes. The information requested may include, but is not limited to, risk management policies and programs, such as the insurer's underwriting, investment, claims, duration or asset-liability management, as well as reinsurance counterparty or operational risk policies.

**Commented [A2]:** Added edits to clarify expectation of an aggregated ORSA filing for U.S. based IAIGs. Also added reference to FAH guidance on identifying the Head of the IAIG, which represents the level at which the ORSA should be filed.

**Commented [A3R2]:** Post Exposure: Add text based on ACLIs letter

## **D. Maintenance Process**

The following establishes procedures of the Group Solvency Issues (E) Working Group or its designated subgroup (collectively referred to as “Working Group”) for proposed changes, amendments and/or modifications to the Manual.

1. The Working Group may consider relevant proposals to change the Manual at any conference call, interim or national meeting (“the meeting”) throughout the year as scheduled by the Working Group.
2. If a proposal for suggested changes, amendments and/or modifications is submitted to, or filed with NAIC staff support, it may be considered at the next regularly scheduled meeting of the Working Group.
3. The Working Group publishes a formal submission form and instructions that can be used to submit proposals and is available on the Group’s webpage. However, proposals may also be submitted in an alternate format provided that they are stated in a concise and complete format. In addition, if another NAIC committee, task force or working group is known to have considered this proposal, that committee, task force or working group should provide any relevant information.
4. Any proposal that would change the Manual will be effective January 1 following the NAIC Summer National Meeting (i.e. of the preceding year) in which it was adopted by the Working Group (e.g., a change proposed to be effective January 1, 2018 must be adopted by the Working Group no later than the 2017 Summer National Meeting) and the Fall National Meeting in which it was adopted by the NAIC.
5. Upon receipt of a proposal, the Working Group will review the proposal at the next scheduled meeting and determine whether to consider the proposal for adoption. If the proposal is to be considered by the Working Group it will be exposed for public comment. The public comment period shall be no less than thirty days and may be extended by the Working Group. The Working Group will consider comments received on each proposal at its next meeting and take action to revise, adopt, reject, refer or continue the consideration of the proposal and comments thereto. Proposals under consideration may be deferred by the Working Group until the following scheduled meeting. The Working Group may form an ad hoc group to study the proposal, if needed. The Working Group may also refer proposals to other NAIC committees for technical expertise or review. If a proposal has been referred to another NAIC committee, the proposal will temporarily be removed from the Working Group’s agenda until a response has been received. At that time, it will be added back to the Working Group’s agenda.
6. NAIC staff support will prepare an agenda inclusive of all proposed changes. The agenda and relevant materials shall be sent via e-mail to each member of the Working Group, interested regulators and interested parties and posted to the Working Group’s webpage

approximately 5-10 business days prior to the next regularly scheduled meeting during which the proposal would be considered.

7. In rare instances, or where emergency action may be required, suggested changes and amendments can be considered as an exception to the above stated process and timeline based on a two-thirds majority consent of the Working Group members present. Notwithstanding the foregoing, in no event may a proposal be adopted without an exposure for public comment.
8. NAIC staff support will publish the Manual on or about December 15 each year. NAIC staff will post to the Group Solvency Issues (E) Working Group and the NAIC Publications Web sites the current versions and any material subsequent corrections to these publications.

## II. SECTION 1 – DESCRIPTION OF THE INSURER’S ENTERPRISE RISK MANAGEMENT FRAMEWORK

An effective ERM framework should, at a minimum, incorporate the following key principles:

- **Risk Culture and Governance** – Governance structure that clearly defines and articulates roles, responsibilities and accountabilities; and a risk culture that supports accountability in risk-based decision-making.
- **Risk Identification and Prioritization** – Risk identification and prioritization process that is key to the organization; responsibility for this activity is clear; the risk management function is responsible for ensuring that the process is appropriate and functioning properly at all organizational levels; key risks of the insurer are identified, prioritized and clearly presented.
- **Risk Appetite, Tolerances and Limits** – A formal risk appetite statement, and associated risk tolerances and limits are foundational elements of risk management for an insurer; understanding of the risk appetite statement ensures alignment with risk strategy by the board of directors.
- **Risk Management and Controls** – Managing risk is an ongoing ERM activity, operating at many levels within the organization.
- **Risk Reporting and Communication** – Provides key constituents with transparency into the risk-management processes and facilitate active, informal decisions on risk-taking and management.

Section 1 of the ORSA Summary Report should provide a high-level summary of the aforementioned ERM framework principles, if present. The ORSA Summary Report should describe the main goals and objectives of the insurers’ business strategy (for all insurance and non-insurance operations in scope) and how the insurer identifies and categorizes relevant and material risks and manages those risks as it executes its business strategy. The ORSA Summary Report should also describe risk-monitoring processes and methods, provide risk appetite statements, and explain the relationship between risk tolerances and the amount and quality of risk capital. The ORSA Summary Report should identify assessment tools (feedback loops) used to monitor and respond to any changes in the insurer’s risk profile due to economic changes, operational changes or changes in business strategy. Finally, the ORSA Summary Report should describe how the insurer incorporates new risk information in order to monitor and respond to changes in its risk profile due to economic and/or operational changes and changes in strategy.

The manner and depth in which the insurer addresses these principles is dependent upon its own risk-management processes. Any strengths or weaknesses noted by the commissioner in evaluating this section of the ORSA Summary Report will have relevance to the commissioner’s ongoing supervision of the insurer, and the commissioner will consider the entirety of the risk management program and its appropriateness for the risks of the insurer.

### **III. SECTION 2 – INSURER ASSESSMENT OF RISK EXPOSURES**

Section 2 of the ORSA Summary Report should provide a high-level summary of the quantitative and/or qualitative assessments of risk exposure in both normal and stressed environments for each material risk category in Section 1. This assessment process should consider a range of outcomes using risk assessment techniques that are appropriate to the nature, scale and complexity of the risks. Examples of relevant material risk categories may include, but are not limited to, credit, market, liquidity, underwriting and operational risks.

Section 2 may include detailed descriptions and explanations of the material and relevant risks identified by the insurer, the assessment methods used, key assumptions made, risk-mitigation activities and outcomes of any plausible adverse scenarios assessed. The assessment of each risk will depend on its specific characteristics. For some risks, quantitative methods may not be well established and, in these cases, a qualitative assessment may be appropriate. Examples of these risks may include certain operational and reputational risks. In addition, each insurer's quantitative methods for assessing risk may vary; however, insurers generally consider the likelihood and impact that each material and relevant risk identified by the insurer will have on the firm's balance sheet, income statement and future cash flows. Methods for determining the impact on future financial position may include simple stress tests or more complex stochastic analyses. When evaluating a risk, the insurer should analyze the results under both normal and stressed environments. Lastly, the insurer's risk assessment should consider the impact of stresses on capital, which may include consideration of risk capital requirements, available capital, as well as regulatory, economic, rating agency and/or other views of capital requirements.

The analysis should be conducted in a manner that is consistent with the way in which the business is managed, whether on a group, legal entity or other basis. Stress tests for certain risks may be performed at the group level. Where relevant to the management of the business, some group-level stresses may be mapped into legal entities. The commissioner may request additional information to map the results to an individual insurance legal entity.

Any risk tolerance statements should include material quantitative and qualitative risk tolerance limits and how the tolerance statements and limits are determined, taking into account relevant and material categories of risk and the risk relationships that are identified.

Because the risk profile of each insurer is unique, each insurer should utilize assessment techniques (e.g., stress tests, etc.) applicable to its risk profile. U.S. insurance regulators do not believe there is a standard set of stress conditions that each insurer should test. The commissioner may provide input regarding the level of stress that the insurer's management should consider for each risk category. The ORSA Summary Report should provide a general description of the insurer's process for model validation, including factors considered and model calibration. Unless a particular assumption is stochastically modeled, the group's management should set assumptions regarding the expected values based on its current anticipated experience, what it expects to occur during the next year or multiple future years, and consideration of expert judgment. The commissioner may provide input to an insurer's management on the assumptions and scenarios to be used in its assessment techniques. For assumptions that are stochastically modeled, the commissioner may provide input on the level of the measurement metric to use in the stressed condition or specify particular parameters used in the economic scenario generator. Commissioner

input will likely occur during the financial analysis process and/or the financial examination process.

By identifying each material risk category independently and reporting results in both normal and stressed conditions, insurer management and the commissioner are better placed to evaluate certain risk combinations that could cause an insurer to fail. One of the most difficult exercises in modeling insurer results is determining the relationships, if any, between risk categories. History may provide some empirical evidence of relationships, but the future is not always best estimated by historical data.

#### **IV. SECTION 3 – GROUP ASSESSMENT OF RISK CAPITAL AND PROSPECTIVE SOLVENCY ASSESSMENT**

Section 3 of the ORSA Summary Report should describe how the insurer combines the qualitative elements of its risk management policy with the quantitative measures of risk exposure in determining the level of financial resources needed to manage its current business and over a longer term business cycle (e.g., the next one to three years). The group risk capital assessment should be performed as part of the ORSA regardless of the basis (group, legal entity or other subset basis) and in a manner that encompasses the entire insurance group. The information provided in Section 3 is intended to assist the commissioner in assessing the quality of the insurer's risk and capital management.

##### **A. Group Assessment of Risk Capital**

Within the Group Assessment of Risk Capital, aggregate available capital is compared against the various risks that may adversely affect the enterprise. The insurer should consider how the group capital assessment is integrated into the insurer's management and decision-making culture, how the insurer evaluates its available capital and how risk capital is integrated into its capital-management activities.

The insurer should have sound processes for assessing capital adequacy in relation to its risk profile and those processes should be integrated into the insurer's management and decision-making culture. These processes may assess risk capital through myriad metrics and future forecasting periods, reflecting varying time horizons, valuation approaches and capital management strategies (e.g., mix of capital). While a single internal risk capital measure may play a primary role in internal capital adequacy assessment, insurers may evaluate how risk and capital interrelate over various time horizons, or through the lens of alternative risk capital or accounting frameworks (i.e., economic, rating agency, and/or regulatory frameworks). This section is intended to assist the commissioner in understanding the insurer's capital adequacy in relation to its aggregate risk profiles.

The group capital assessment should include a comparative view of risk capital from the prior year, including an explanation of the changes, if not already explained in another section of the ORSA Summary Report. This information may also be requested by the commissioner throughout the year, if needed (e.g., if material changes in the macroeconomic environment and/or



microeconomic facts and circumstances suggest the information is needed for the ongoing supervisory plan).

The analysis of an insurer's group assessment of risk capital requirements and associated capital adequacy description should be accompanied by a description of the approach used in conducting the analysis. This should include key methodologies, assumptions and considerations used in quantifying available capital and risk capital. Examples might include:

Considerations	Description of Methodologies and Assumptions	Examples (not exhaustive)
<b>Definition of Solvency</b>	Describe how the insurer defines solvency for the purpose of determining risk capital and liquidity requirements.	Cash flow basis; balance sheet basis
<b>Accounting or Valuation Regime</b>	Describe the accounting or valuation basis for the measurement of risk capital requirements and/or available capital.	GAAP; statutory; economic or market consistent; IFRS; rating agency model
<b>Business Included</b>	Describe the subset of business included in the analysis of capital.	Positions as of a given valuation date; New business assumptions
<b>Time Horizon</b>	Describe the time horizon over which risks were modeled and measured.	One-year, multi-year; lifetime; run-off
<b>Risks Modeled</b>	Describe the risks included in the measurement of risk capital, including whether all relevant and material risks identified by the insurer have been considered.	Credit; market; liquidity; insurance; operational
<b>Quantification Method</b>	Describe the method used to quantify the risk exposure.	Deterministic stress tests; stochastic modeling; factor-based analysis
<b>Risk Capital Metric</b>	Describe the measurement metric utilized in the determination of aggregate risk capital.	Value-at-risk (VAR), which quantifies the capital needed to withstand a loss at a certain probability; tail-value-at-risk (TVAR), which quantifies the capital needed to withstand average losses above a certain probability; probability of ruin, which quantifies the probability of ruin given the capital held

Considerations	Description of Methodologies and Assumptions	Examples (not exhaustive)
<b>Defined Security Standard</b>	Describe the defined security standard utilized in the determination of risk capital requirements, including linkage to business strategy and objectives.	AA solvency; 99.X% 1-year VAR; Y% TVAR or CTE; X% of RBC
<b>Aggregation and Diversification</b>	Describe the method of aggregation of risks and any diversification benefits considered or calculated in the group risk capital determination.	Correlation matrix; dependency structure; sum, full/partial/no diversification

The approach and assessment of group-wide capital adequacy should also consider the following:

- Elimination of intra-group transactions and double-gearing where the same capital is used simultaneously as a buffer against risk in two or more entities;
- The level of leverage, if any, resulting from holding company debt;
- Diversification credits and restrictions on the fungibility of capital within the holding company system, including the availability and transferability of surplus resources created by holding company system level diversification benefits;
- The effects of contagion risk, concentration risk and complexity risk in the group assessment of risk capital.

The goal of the group capital assessment is to provide an overall determination of risk capital needs for the insurer, based upon the nature, scale and complexity of risk within the group and its risk appetite, and to compare that risk capital to available capital to assess capital adequacy. Group assessment of risk capital should not be perceived as the minimum amount of capital before regulatory action will result (e.g., the triggers in the *Risk-Based Capital (RBC) for Insurers Model Act* (#312)); rather, it should be recognized that this is the capital needed within a holding company system to achieve its business objectives.

The insurer should also monitor the effect of liquidity risk, including calls on the insurer's cash position, due to micro-economic factors (i.e., internal operational) and/or macro-economic factors (i.e., economic shifts). The insurer should assess demonstrate its resilience against severe but plausible liquidity stresses and whether the current liquidity position is within any liquidity risk appetite and/or limits. The insurer should also describe in the ORSA the policies and processes in place to manage liquidity risk, as well as contingency funding or other plans to mitigate potential liquidity stresses.

**Commented [A4]:** Post Exposure: All insurers should explain how they manage liquidity risk. Moved this paragraph to the end of section and replaced "insurer should demonstrate its resilience" with "insurer should assess" Response to ACLI, APCIA, & travelers.

## **B. Prospective Solvency Assessment**

The insurer's capital assessment process should be closely tied to business planning. To this end, the insurer should have a robust capital forecasting capability that supports its management of risk over the planning time horizon in line with its stated risk appetite. The forecasting process should consider material and relevant changes identified by the insurer to the insurer's internal operations and the external business environment. It should also consider the prospect of operating in both normal and stressed environments.

The insurer's prospective solvency assessment should demonstrate it has the financial resources necessary to execute its multi-year business plan in accordance with its stated risk appetite. If the insurer does not have the necessary available capital (in terms of quantity and/or quality) to meet its current and projected risk capital requirements then it should describe the management actions it has taken (or will take) to remedy any capital adequacy concerns. These management actions may include or describe any modifications to the business plan or identification of additional capital resources.

The prospective solvency assessment is, in effect, a feedback loop. The insurer should project its future financial position, including its projected economic and regulatory capital to assess its ability to meet the regulatory capital requirements. Factors to be considered are the insurer's current risk profile, its risk management policy, and its quality and level of capital, including any changes to its current risk profile caused by executing the multi-year business plan. The prospective solvency assessment should also consider both normal and stressed environments.

While the prospective solvency assessment includes capital projections, the prospective solvency assessment should also include a discussion of prospective risks impacting the capital projections. This discussion should address whether risk exposures are expected to increase or decrease in the future and what steps the insurer plans to take that may change its risk exposures. The term "prospective" should pertain to both existing risks likely to intensify and emerging risks with the potential to impact the insurer in the future.

If the prospective solvency assessment is performed for each individual insurer, the assessment should take into account any risks associated with group membership. Such an assessment may involve a review of any group solvency assessment and the methodology used to allocate group capital across insurance legal entities, as well as consideration of capital fungibility; i.e., any constraints on risk capital or the movement of risk capital to legal entities.

## **V. ADDITIONAL EXPECTATIONS FOR INTERNATIONALLY ACTIVE INSURANCE GROUPS**

This section identifies additional enterprise risk management expectations that are applicable to IAIGs and should be discussed in the ORSA Summary Report by IAIGs. These expectations are generally consistent with elements outlined in the IAIS ComFrame and have been incorporated into this manual as to the extent deemed appropriate by state insurance regulators.

As stated earlier in this document, an aggregated ORSA Summary Report should be filed at the Head of the IAIG level. The Head of the IAIG should ensure that the risk management strategy and framework described in the ORSA, whether located at the Head of the IAIG or within another legal entity of the IAIG, encompass both the Head of the IAIG and the legal entities within the IAIG to promote a sound risk culture across the group.

The risk management strategy should be approved by the IAIG Board with regular risk management reporting provided to the IAIG Board or one of its committees.

**Commented [A5]:** Post Exposure: Inserted based on ACLI and APCIA comment letter

**Commented [A6]:** Post Exposure: Added based on ACLIs comment letter

The risk management framework should be integrated with the organizational structure of the IAIG and within its legal entities as appropriate to ensure that the decision making processes, business operations and risk culture of the IAIG are implemented. In addition, the framework should allow for the measurement of risk exposures of the IAIG against established risk limits on an ongoing basis in order to identify potential concerns as early as possible. This framework should cover, at a minimum:

- The diversity and geographical reach of IAIG activities;
- The nature and degree of risks in individual legal entities and business lines;
- The aggregation of risks across entities within the IAIG;
- The interconnectedness of legal entities within the IAIG;
- The level of sophistication and functionality of information and reporting systems in addressing key risks;
- The applicable laws and regulations of the jurisdictions where the IAIG operates.

**Commented [A7]:** Post Exposure: Added based on ACLIs letter

The risk management framework should promote a sound risk culture across all legal entities of the IAIG by having policies and processes that include risk management training, address independence, create appropriate incentives for staff involved in risk management and encourage timely evaluation and open communication of emerging risks that may be significant to the IAIG and its legal entities.

The risk management framework of the IAIG should be reviewed at least annually to ensure that existing and emerging risks as well as changes in structure and business strategy are taken into account. Necessary modifications and improvements to the risk management framework should be made in a timely manner.

The IAIG's ORSA should explain how the risk management function, the actuarial function and the internal audit function are involved in the risk management of the IAIG. ~~in the context of the ORSA.~~ The ORSA should explain the main activities of each of these functions. Furthermore, the ORSA should describe how the risk management function remains independent from risk taking activities. The ORSA should describe how the actuarial function is involved in the risk assessment and management of the risks emanating from the legal entities, in determining the IAIG's solvency position, in any actuarial-related modeling in the ORSA and in the annual reporting to the IAIG Board of Directors on the risks posed to the IAIG. Finally, the ORSA should describe how the audit function provides an independent assessment and assurance to the IAIG Board of Directors of the operational effectiveness of the internal controls incorporated into the risk management framework.

The risk management strategy and framework of an IAIG should be as generally consistent as possible across the legal entities with material differences only due to supervisory requirements in the jurisdictions where the IAIG operates and the risks associated with the business conducted in those jurisdictions. ~~—and any material differences across the group should be described in the ORSA.~~ The framework should include:

- Strategies, policies and processes to manage risks effectively and in a cross-border context for at least insurance risk, market risk, credit risk, liquidity risk, concentration risk, operational risk, group risk and strategic risk. The investment policies should ensure that assets are properly diversified and asset concentration risk is mitigated across the IAIG;

**Commented [A8]:** Post Exposure: Added based on travelers comment

**Commented [A9]:** Post Exposure: Deleted exposure language and add "any material differences across the group should be described in the ORSA". Language is more concise to address travelers concern.

- Mechanisms to keep track of intra-group transactions that have a significant impact on the IAIG, the risks arising from these transactions and the qualitative and quantitative restrictions on these risks. These intra-group transactions may include for example, loans, guarantees, dividend payments, reinsurance, transactions across different financial services entities within the IAIG and any activity undertaken by individual legal entities that may change the risk profile of the IAIG;
- An economic capital model to measure all relevant and material risks that the IAIG faces in different sectors, jurisdictions and economic environments. The model should estimate the amount of capital needed in reasonably foreseeable adverse situations. The results of the model, how the risks were aggregated in the model, how the diversification benefit was estimated and the underlying assumptions used in the model should be presented in the ORSA. The ORSA should show both the economic and the regulatory capital at the Head of the IAIG level. A discussion of the fungibility of capital and the transferability of assets within the group should also be included;
- Risk measurements that include stress and reverse stress testing and scenario analysis deemed relevant to the risk profile of the IAIG;
- Risk measurements of ~~as well as the resilience of its total balance sheet against plausible macroeconomic stresses;~~
- Risk measurements that assess the aggregate investment counterparty exposures and the effect of severe but plausible stress events on those exposures. In addition, the IAIG should have an investment counterparty risk appetite statement to determine if the current exposures are within the risk appetite and this should be presented in the ORSA.

**Commented [A10]:** Post Exposure: Separated bullet point to not confuse reverse stress tests with plausible macroeconomic stresses based on ACLIs comment letter. Left the glossary definition of reverse stress test unchanged.

The risk management framework should include a series of mechanisms to manage the IAIG's liquidity risk and demonstrate the IAIG's resilience against severe but plausible liquidity stresses. These mechanisms include:

- A liquidity risk appetite statement and liquidity risk limits to determine if the current liquidity position of the IAIG is within the risk appetite and the limits;
- Strategy, policies and processes to manage liquidity risk;
- Liquidity stress testing;
- An adequate level of unencumbered highly liquid assets;
- Contingency funding to mitigate potential liquidity stresses.

~~The group wide supervisor should determine whether to require that the IAIG develop a formal recovery plan. The IAIG may be asked by the group wide supervisor to develop a recovery plan, if warranted. A recovery plan, The Head of the IAIG should develop a recovery plan that identifies in advance options to restore the financial position and viability of the group if it comes under severe stress and it should have management information systems that are able to produce information relevant to the recovery plan on a timely basis. The plan should be reviewed and updated on a regular basis or when there are material changes. A The. The full recovery plan is not expected to be included in the ORSA Summary Report; however the ORSA Summary Report should discuss at a high-level the severe stresses that would trigger a recovery plan and should summarize the recovery options available.~~

**Commented [A11]:** Post Exposure: Paragraph changed based on travelers and NAMIC comments.

The risk management framework should be reviewed by the insurer at least once every three years, in order to ascertain that it remains fit for purpose based on the risk profile, structure and business

strategy of the IAIG. The review may be carried out by an ~~by an~~ internal or external body as long as it is not responsible nor involved in the risk management framework that it reviews.

## ~~V~~.VI. APPENDIX – GLOSSARY

Term	Definition
Available Capital	The amount of resources that an enterprise has at a given point in time under a defined valuation or accounting basis (e.g., economic, statutory, GAAP, or a combination) to support its business and under the defined valuation represents the insurers assessment of the types of capital required to support its business.
Conditional Tail Expectation (CTE) [Also known as Tail Value at Risk or TVaR]	A measure of the amount of risk that exists in the tail of a distribution of outcomes, expressed as the probability weighted average of the outcomes beyond a chosen point in the distribution. Typically expressed as CTE (1-x), which would be calculated as the probability weighted average of the worst x% of outcomes. For example, CTE 95 is calculated as the probability weighted average of the worst 5% of outcomes, CTE 97 is the probability weighted average of the worst 3% of outcomes, etc. CTE can be used as a way of defining a particular <i>security standard</i> .
Correlation Matrix	A symmetric matrix specifying pairwise interactions between a set of variables or data. A correlation matrix is commonly applied to risks or capital amounts and is an important determinant of calculated <i>risk capital</i> , including levels of <i>diversification</i> .
Deficit Capital	If the amount of <i>available capital</i> is less than the determined <i>risk capital</i> of an enterprise, then the enterprise is said to have <i>deficit capital</i> .
Defined Security Standard	Minimum threshold of <i>available capital</i> that a company wishes to achieve or maintain, consistent with the company's business strategy, <i>risk appetite</i> and <i>risk tolerance</i> .
Dependency Structure	Specification of the relationship between different variables. Commonly specified in a <i>correlation matrix</i> .
Diversification	The extent to which the combined impact of risks inherent to assets and liabilities is less than the sum of the impacts of each risk considered in isolation.
Double Gearing	Used to describe situations where multiple companies (typically parent and subsidiary) are using shared capital to buffer against risk occurring in separate entities.
<b>Economic Capital</b>	<b>The amount of capital that an insurer required to absorb unexpected losses based on its risk profile and risk appetite.</b>
Excess Capital	If the amount of <i>available capital</i> is greater than the determined <i>risk capital</i> of an enterprise, the enterprise is said to have <i>excess capital</i> .
Fungibility	Within a group context, the ability to redeploy <i>available capital</i> from one entity to another. Fungibility is reduced where the movement of <i>available capital</i> within the group is constrained or regulation prohibits it.

**Commented [A12]:** Post Exposure: Definition of Economic Capital Added based on travelers.

Term	Definition
Group Capital	Group capital represents the aggregate <i>available capital</i> or <i>risk capital</i> for the entire group. It will be impacted by the interaction of the risks and capital of the individual entities within the group, with properties such as <i>diversification</i> , <i>fungibility</i> and the quality and form of capital being important drivers.
<u>Internationally Active Insurance Group</u>	<u>An insurance holding company system meeting the following criteria:</u> <ol style="list-style-type: none"> <li><u>1. Premiums written in at least three countries;</u></li> <li><u>2. The percentage of gross premiums written outside the home country is at least ten percent (10%) of the insurance holding company system's total gross written premiums; and</u></li> <li><u>2-3. Based on a three-year rolling average, the total assets of the insurance holding company system are at least fifty billion dollars (\$50,000,000,000) or the total gross written premiums of the insurance holding company system are at least ten billion dollars (\$10,000,000,000).</u></li> </ol>
Probability of Ruin	Likelihood of liabilities exceeding assets for a given time horizon.
Risk Appetite	Documents the overall principles that a company follows with respect to risk-taking, given its business strategy, financial soundness objectives and capital resources. Often stated in qualitative terms, a risk appetite defines how an organization weighs strategic decisions and communicates its strategy to key stakeholders with respect to risk-taking. It is designed to enhance management's ability to make informed and effective business decisions while keeping risk exposures within acceptable boundaries.
Risk Capital	An amount of capital calculated to be sufficient to withstand adverse outcomes associated with various risks of an enterprise, up to a pre-defined <i>security standard</i> .
Risk Capital Metric	Quantitative variable used to gauge risk.
Risk Exposure	For each risk listed in the company's <i>risk profile</i> , the amount the company stands to lose due to that particular risk at a particular time, as indicated by a chosen metric.
Risk Limit	Typically quantitative boundaries that control the amount of risk that a company takes. Risk limits are typically more granular than <i>risk tolerances</i> and may be expressed at various levels of aggregation: by type of risk, category within a type of risk, product or line of business, or some other level of aggregation. Risk limits should be consistent with the company's overall <i>risk tolerance</i> .
Risk Profile	A delineation and description of the material risks to which an organization is exposed.
Risk Tolerance	The company's qualitative and quantitative boundaries around risk-taking, consistent with its <i>risk appetite</i> . Qualitative risk tolerances are useful to describe the company's preference for, or aversion to, particular types of risk, particularly for those risks that

Term	Definition
	are difficult to measure. Quantitative risk tolerances are useful to set numerical limits for the amount of risk that a company is willing to take.
<u>Reverse Stress Test</u>	<u>Analysis of those scenarios that would render the insurer insolvent.</u>
Security Standard	The level of a <i>measurement metric</i> used to determine <i>risk capital</i> . It signifies the strength of capital, and in practice, should be chosen to be consistent with the <i>risk appetite</i> and <i>risk tolerance</i> .
Solvency	For a given accounting basis, the state where, and extent to which, assets exceed liabilities.
Stochastic Analysis	A methodology designed to attribute a probability distribution to a range of possible outcomes. May use closed form solutions, or large numbers of scenarios in order to reflect the shape of the distribution.
Scenario Analysis	Analysis of the impact of possible future outcomes, based on alternative projected assumptions. This can include changes to a single assumption or combination of assumptions.
Stress Test	A type of scenario analysis in which the change in parameters is considered significantly adverse or even extreme.
Time Horizon	In the context of risk capital calculations, the period over which the impact of changes to risks is tested.
Value-at-Risk (VaR)	An estimate of the maximum loss over a certain period of time at a given confidence level.

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Justin Schrader  
 Chief Financial Examiner, Nebraska Insurance Department  
 Chair, NAIC Group Solvency Issues (E) Working Group  
 [via-email: [bjenson@naic.org](mailto:bjenson@naic.org)]

July 8, 2022

Re: Exposure of Proposed revisions to the NAIC's Financial Condition Examiners Handbook (FCEH) and NAIC's ORSA Guidance Manual

Dear Mr. Schrader,

The American Council of Life Insurers appreciates the opportunity to provide comments on the NAIC Group Solvency Issues (E) Working Group's recent exposure of proposed revisions to the NAIC's Financial Condition Examiners Handbook (FCEH) and NAIC's ORSA Guidance Manual to incorporate elements of the IAIS's Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame). We suggest the following changes:

#### (1) GWS Determinations

Under proposed revisions to Financial Analysis Handbook Section VI.B (Role of Lead State/Group-wide Supervisor), the determination of scope of group, IAIG status, and Head of IAIG are described as roles for the group-wide supervisor. See Financial Analysis Handbook Exposure at 16-18; see also ComFrame 23.0.a. We note that in the ORSA Guidance Manual Exposure at 10, there is a suggestion that the question of IAIG determination, scope of group, and Head of IAIG would be considered as part of the preparation and evaluation of the ORSA and ORSA Summary Report. We would clarify that those determinations are made by the group-wide supervisor and then applied to the ORSA process, so that regulators and groups will have certainty in that application.

We would suggest deleting the last two sentences on page 10 of the ORSA Exposure and replacing with:

"The U.S. global group-wide supervisor will identify the scope of group, determine whether the group is an IAIG, identify the Head of the IAIG (using the guidance contained in the NAIC's Financial Analysis Handbook), and determine which non-insurance operations (if any) within the

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group should be included within the scope of the group, and therefore the ORSA Summary Report.”

## (2) Scope of IAIG Risk Management Framework

In discussing what the risk management framework should address, the ORSA Exposure at page 20 refers to “aggregation of risks across entities” and “interconnectedness of legal entities.” ComFrame rightly limits the required risk management framework to legal entities within the IAIG. See ComFrame 8.1.a. We suggest adding “within the IAIG” to these two items. Without that addition, the responsibilities of the Head of the IAIG and the scope of review for the group-wide supervisor are unclear.

The proposed revisions to the ORSA Exposure on page 18 expand the assessment to include a demonstration of resilience to liquidity stresses. We would suggest limiting such demonstrations to only those insurers who pass the scoping requirements for the NAIC Liquidity Stress Testing Framework. If not limited, then essentially all insurers are scoped into an expanded liquidity stress testing effort, regardless of whether they meet the scoping requirements of the Liquidity Stress Testing Framework.

## (3) Evaluation of Recovery Plans

Appendix C of the Financial Condition Examiners Handbook Exposure, starting at page 84, refers to test procedures that would, among other things, “evaluate the ... viability of the recovery plan options presented in the ORSA.” However, if recovery plans are submitted to the group-wide supervisor, then the group-wide supervisor will have evaluated its viability and commented to the Head of the IAIG. We therefore would either remove the test procedure regarding viability of the recovery plan or add to the end of that section, “unless the group-wide supervisor previously reviewed the recovery plan.”

## (4) The Recovery Plan should be separate from the ORSA.

On page 85 of the Proposed Financial Condition Examiners Handbook Additions at the bottom of the “Possible Test Procedure(s)” column the following language is included “*Conduct exam procedures as deemed appropriate to evaluate the reasonableness of contingency funding and viability of the recovery plan options presented in the ORSA. Verify that the recovery plan options are presented for all severe stress scenarios that pose a serious risk the viability of the IAIG of any material part of its insurance business.*”

We suggest that the ORSA may contain a **high level** narrative related to the company's Recovery Plan, but the plan itself should be a separate document. The guidance in the Financial Condition Examiners Handbook should be more in line with this language on page 21 of the ORSA Guidance Manual exposure: “*The group-wide supervisor should determine whether to require that the IAIG develop a formal recovery plan that identifies in advance options to restore the financial position and viability of the group if it comes under severe stress. The full recovery plan is not expected to be included in the ORSA Summary Report; however, the ORSA Summary Report should discuss at a high-level the severe stresses that could trigger a recovery plan and the recovery options available.*”

## (5) Flexibility in Governance Structures

The ICPs and ComFrame make clear that, while the head of an IAIG has ultimate responsibility for governance, IAIGs can have different governance structures and organization, as long as the outcomes of ComFrame are achieved. ComFrame 18-27. That flexibility includes applying a centralized or decentralized model of governance. ComFrame 26. Tasks and responsibilities of group-wide control functions, likewise, can be located at the Head of the IAIG or within another legal entity of the IAIG, as long as they are clearly defined. ComFrame 8.3.a. We suggest that both the ORSA Exposure and FCEH Exposure more clearly acknowledge that flexibility in fulfilling IAIG responsibilities.

In the ORSA Exposure at 19, we suggest revising the second new paragraph as follows:

“As stated earlier in this document, an aggregated ORSA Summary Report should be filed at the Head of the IAIG level. The Head of the IAIG should ensure that the risk management strategy and framework described in the ORSA, whether located at the Head of the IAIG or within another legal entity of the IAIG, encompass both the Head of the IAIG and the legal entities within the IAIG to promote a sound risk culture across the group.”

In the FCEH Exposure at 244, we suggest revising the first new paragraph:

“This section identifies additional corporate governance requirements applicable to Internationally Active Insurance Groups (IAIGs). As noted above, when conducting coordinated group exams, the level at which the governance is evaluated may vary. However, if the holding company group under examination has been identified as an IAIG, governance practices must be evaluated at the Head of the IAIG to ensure that appropriate policies and processes are in place, whether located at the Head of the IAIG or within another legal entity of the IAIG, to promote effective oversight of the group-wide operations and a sound risk culture. For additional guidance related to the examination of IAIGs, refer to Section 1, Part I in this Handbook.”

#### **(6) References to the ICS should be removed**

As noted in our previous letter on the earlier exposure of the NAIC Financial Analysis Handbook, we appreciate the updates made to emphasize the priority of GCC and ORSA review when assessing group capital of U.S. IAIGs. However, we continue to find the references to the ICS on page 47 and 50 to be problematic and inconsistent with the NAIC’s recognition of the material shortcomings of the ICS framework, such as its excessive sensitivity to near-term market movements that are inconsequential to insurer cash flows and solvency strength over time and resulting inclination to provide inaccurate signaling. Given the shortcomings of the ICS framework and NAIC’s conscious decision to develop a more appropriate lens for assessing group capital (i.e., the GCC and AM), we continue to believe that the references to the ICS should be removed from the Financial Examiners Handbook.

#### **(7) Reverse Stress Test**

On page 23 of the ORSA Guidance Manual revisions, a new glossary item for “reverse stress test” is included. The definition indicates it’s a test that would render the insurer insolvent seems overly narrow. We suggest defining it more generically as a test that presumes a specified negative outcome to provide better context for when that phrase is used next to “plausible macroeconomic stresses”.

We appreciate the opportunity to comment and look forward to working with the GSIWG to

finalize these documents.

Best Regards,

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Stephen W. Broadie  
Vice President, Financial & Counsel

July 8, 2022

Justin Schrader  
Chair, Group Solvency Issues (E) Working Group  
National Association of Insurance Commissioners  
Via email: [BJenson@naic.org](mailto:BJenson@naic.org)

**Re: Proposed ComFrame Revisions to the NAIC's Financial Condition Examiners Handbook (FCEH) and the Own Risk and Solvency Assessment (ORSA) Guidance Manual**

Dear Mr. Schrader:

The American Property Casualty Insurance Association (APCIA) is pleased to submit to you and the other members of the NAIC's Group Solvency Issues (E) Working Group our comments on the Working Group's drafts of ComFrame-related Revisions to the NAIC's FCEH and ORSA Guidance Manual. APCIA is the primary national trade association for home, auto, and business insurers. The association promotes and protects the viability of private competition for the benefit of consumers and insurers, with a legacy dating back 150 years. APCIA members represent all sizes, structures, and regions—protecting families, communities, and businesses in the U.S. and across the globe.

We appreciate the extensive work that has gone into the drafts, and the NAIC's participation in the work of the International Association of Insurance Supervisors (IAIS) that produced the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame). APCIA staff have been involved in the development of ComFrame for many years. Appropriate implementation of ComFrame in the supervision of U.S.-based IAIGs will facilitate their ability to compete on a nondiscriminatory basis in foreign markets, and will enhance our own healthy and competitive market. It is critical, however, that ComFrame's provisions and other international standards be implemented in state insurance regulation only to the extent that they are consistent with and enhance the U.S. regulatory system and insurance market. Our comments that follow are offered in that spirit.

We look forward to continuing to work with you and the Working Group as these drafts progress. If you, other members of the Working Group, or NAIC staff have any questions about our comments, please feel free to contact me or other APCIA staff at your convenience.

Sincerely,

A handwritten signature in black ink, reading "Step W Broadie", enclosed in a rectangular box.

Stephen W. Broadie

# APCIA Comments on ComFrame in the Financial Condition Examiners Handbook

## 1. FCEH Section I-I.F, Coordinated Examinations of Internationally Active Insurance Groups, includes the following statements:

Such areas are largely consistent with the International Association of Insurance Supervisors' (IAIS) Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) deemed applicable by state insurance regulators. While the financial analyst is typically responsible for many of the group-wide supervision activities, certain elements of ComFrame may be evaluated more effectively through onsite examination procedures.

As worded, we have some concern with the statement as it can be read to say that ComFrame (as a whole) is deemed applicable by state insurance regulators. Our preference is to avoid references to ComFrame altogether, but at a minimum, the following changes are suggested:

Such areas, or topics, listed in the table below, are deemed applicable by state insurance regulators and are largely consistent with the corresponding measures included in the International Association of Insurance Supervisors' (IAIS) Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) ~~deemed applicable by state insurance regulators.~~ While the financial analyst is typically responsible for many of the group-wide supervision activities, certain elements ~~of ComFrame~~ may be evaluated more effectively through onsite examination procedures.

Likewise, we suggest the following changes to this paragraph in order to avoid incorporating ComFrame by reference:

~~ComFrame is~~ Examination procedures with respect to IAIGs are to be applied flexibly and proportionately and therefore not every additional area of IAIG supervision will apply to each IAIG or will apply in the same way or to the same extent. Group-wide supervisors have the flexibility to tailor implementation of supervisory requirements and application of insurance supervision. ~~ComFrame Examination guidance in this handbook~~ is not a one-size-fits-all approach to IAIG supervision ~~as the goal is to achieve the outcomes set forth in ComFrame.~~ IAIGs have different models of governance (e.g., more centralized or more decentralized). ~~ComFrame This guidance~~ does not favor any particular governance model and is intended to apply to all models. The organization of an IAIG can be structured in various ways as long as the intended outcomes are achieved. Proportionate application, ~~which is called for in IAIS guidance,~~ involves using a variety of supervisory techniques and practices tailored to the insurer. The techniques and practices applied should not go beyond what is necessary in order to achieve the intended outcomes of the ~~IAIS' Insurance Core Principles and ComFrame examination.~~

## 2. The NAIC's cover memo states the following with respect to Examination Repositories (emphasis added):

"Added statement to respective examination repositories to indicate that some or all risks within the key activity could be utilized to address relevant ComFrame considerations, and therefore procedures may need to be performed at the Head of the IAIG. When only some risks are deemed applicable, these are identified with the † symbol."

In that regard, we observe the following examples:

The Examination Repository – Investments, states that "† Items with this symbol may warrant additional procedures or consideration at the Head of the Internationally Active Insurance Group

(IAIG) or level at which the group manages its aggregated risks. Refer to Section 1, Part I for additional guidance for examinations of IAIGs.”

Two of the identified risks listed in the Examination Repository are so tagged with the † symbol, i.e., only “some” as per the cover memo. By contrast for other repositories “all” risks noted are covered, not because they are all tagged with † symbol, rather because of different text in the preface to the repository. For example, the Examination Repository – Reinsurance (Ceding Insurer) includes a somewhat different statement, as follows:

“Risks within this key activity may warrant additional procedures or consideration at the Head of the Internationally Active Insurance Group (IAIG) or level at which the group manages its aggregated risks. Refer to Section 1, Part I for additional guidance for examinations of IAIGs.”

The dagger symbol is not mentioned in that statement, nor are any of the listed identified risks tagged with a dagger symbol, implying that all risks in that repository “may need to be performed at the Head of the IAIG” level. Nonetheless, we believe most of the identified risks listed in this repository are best evaluated, first and foremost, at the legal entity level.

While the dagger symbol is only used to tag 5 specific risks throughout the repositories, there are repositories where “all” are effectively tagged (albeit without the dagger symbol). We are concerned that this could result in inconsistencies across examinations, as well as inefficiencies and burden on IAIGs as exam teams attempt to make such evaluations when, in many cases, they may instead be best addressed at the legal entity level.

We suggest that a section of text be added to provide guidance to examiners as to when it would be most appropriate to evaluate a risk at the level of the Head of the IAIG, e.g., where the risk is effectively managed at that level due to centralization of the related responsibilities for risk management and reporting. Where IAIGs have a decentralized business model, at least in regard to certain operations and management of their related risks, examiners would be best advised to evaluate those risks at the subgroup or even legal entity level.

**3. The FCEH section on “Review of Appendix C – IAIG Risk Management Assessment Considerations (if applicable)” includes the following preface for which we suggest an editorial change as well as an additional phrase, as shown below, to be consistent with changes made to the Financial Analysis Handbook:**

~~The ORSA Summary Report is expected to be filed at the Head of the IAIG and should describe the risk management strategy and framework for the Head of the IAIG and legal entities within the IAIG.~~ While the considerations provided throughout this section are generally applicable to all insurers/insurance groups filing and ORSA Summary Report, there are additional risk management assessment considerations that apply to groups identified as Internationally Active Insurance Groups (IAIGs). While tThe ORSA Summary Report is expected to be filed at the Head of the IAIG and should describe the risk management strategy and framework for the Head of the IAIG and legal entities within the IAIG, e-xaminers must not exceed their legal authority and any supervisory measures should be risk-based and proportionate to the size and nature of the group. Therefore, the group-wide supervisor may need to conduct certain assessments at the head of the IAIG or level at which the group manages its aggregated risks to ensure that group-wide considerations are appropriately evaluated and verified through examination procedures, if not already addressed above.

The table also includes the following statement:

“The group-wide risk management strategy is approved by the IAIG Board and implemented at the group-wide level; with regular risk management reporting provided to the IAIG Board or one of its committees”

This statement is made without the overarching context that appears earlier in the FCEH that no particular governance model is favored, and that the examination guidance is intended to apply to all models. We suggest that a similar statement be added to the above.

In the same table, the following statement is made to which we suggest an addition as shown in marked text (taken from ComFrame, but without citing ComFrame):

The group-wide risk management framework is reviewed to ensure that existing and emerging risks as well as change in structure and business strategy are taken into account.

- Internal review required annually.
- Independent review required once every three years.

The group-wide ERM framework review may be carried out by an internal or external body as long as the reviewer is independent and not responsible for, nor been actively involved in, the part of the groupwide ERM framework that it reviews.

#### 4. Under “Holding Company Considerations,” we suggest the changes noted below to the first paragraph:

In conducting examinations of insurers that are part of a holding company group, including Internationally Active Insurance Groups (IAIGs), the work to gain an understanding and perform an assessment of corporate governance should focus on the level at which insurance operations are directly overseen (e.g., Head of the IAIG, ultimate parent company level, insurance holding company level, legal entity level, etc.). However, in certain areas it may be necessary to also review governance activities occurring at a level above or below the primary level of focus. Many critical aspects of governance usually occur at the holding company level. Furthermore, if the insurer under examination belongs to a holding company group that has been ~~identified~~identified as an IAIG, it may be necessary to evaluate certain group level governance practices. ~~must be evaluated. FCEH guidance does not favor any particular governance model and is intended to apply to all models; the organization of an IAIG can be structured in various ways.~~ Because of these factors, the exam team should seek to coordinate the review and assessment of group corporate governance to the extent applicable in accordance with the exam coordination framework and lead state approach outlined in Section 1 of this Handbook.

A corresponding change should be made to the text in Exhibit M in the first paragraph under Holding Company Considerations.

#### 5. The Audit Review Procedures in Exhibit E include a proposed change, as shown below:

- Determine that audit activities are performed by an independent and qualified staffthat is objective in evaluating the insurer’s financial reporting risks and internal controls, including management information systems. In order to be independent, Internal Audit members should not have other operational, risk management or accounting responsibilities.

The proposed change goes a step further beyond the text in the Annual Financial Reporting Model Regulation. Also, Exhibit M would be applicable to all exams, not just those of IAIGs. As such the proposed change would apply to an exam of any insurer with an internal audit function, including those that do not meet the Model’s size requirements that mandate such a function for larger companies and groups. While we would generally expect an IAIG to have an internal audit function that is independent as the proposal suggests, for reasons related primarily to resource constraints, some who provide some internal audit services may simply have to be involved in other areas as well. Thus, we suggest the text be revised accordingly.



**6. Exhibit M includes the following question for examiners to consider in evaluating an IAIG's Board of Directors:**

Has the board of directors developed an adequate conflict of interest policy for officers, management and key personnel that includes processes to identify and avoid, or manage, conflicts of interest that may adversely affect the IAIG as a whole or any of its legal entities?

Our concern is with respect to the phrase, "or any of its legal entities." Included in the Overarching Concepts within the Introduction to ComFrame is the following, with respect to "Allocation of roles:"

The group-wide supervisor takes responsibility for the supervision of the IAIG as a whole, on a group-wide basis. Other involved supervisors are responsible for the supervision of the IAIG's individual insurance legal entities in their respective jurisdictions and take into account the effect of their supervisory actions on the rest of the IAIG.

That text was added to ComFrame as a result of stakeholder concerns that, otherwise, the text would suggest that the Board of the Head of the IAIG was responsible for all activities of all legal entities, which is not practical or realistic. Therefore, we would suggest that a similar statement be included in Exhibit M. We also suggest deletion of the phrase "or any of its legal entities" from the statement referred to above from Exhibit M.

# APCIA Comments on ComFrame in the Own Risk and Solvency Assessment (ORSA) Guidance Manual

## 1. Under section 1.A., Exemption, the following additional sentence has been proposed in the second paragraph:

If the insurer is not an IAIG with a US global group-wide supervisor this can be done as a combination of reports.

That statement, taken in the context of the rest of the paragraph, doesn't change the existing guidance for non-IAIGs (i.e., they can file a single group ORSA Summary Report or a combination of reports). It is only by inference that a reader would conclude that the same would now not be true for IAIGs (i.e., they would have to file a group ORSA Summary Report). We believe the text should be more explicit about IAIGs, as well as consistent with changes that were made to the Financial Analysis Handbook. Therefore, we suggest adding a new third paragraph to this effect:

If the group is an IAIG with a US global group-wide supervisor, a group ORSA Summary Report should be filed, providing however that the group-wide supervisor not exceed their legal authority and any supervisory measures should be risk-based and proportionate to the size and nature of the group.

## 2. Section V., Additional Expectations for Internationally Active Insurance Groups, is prefaced with the following paragraph for which APCIA proposes a change as shown below in marked text:

This section identifies additional enterprise risk management expectations that are applicable to IAIGs with US group wide-supervisors and should be discussed in the ORSA Summary Report. These expectations are generally consistent with elements outlined in the IAIS ComFrame and have been incorporated into this manual to the extent ~~as~~ deemed appropriate by state insurance regulators.

The suggested change is intended to avoid inferring that all of ComFrame is deemed appropriate by state insurance regulators, and to avoid incorporating ComFrame by reference.

Section V also pulls in many risk management-related provisions of ComFrame. In doing so, the inference is that the group is structured in a centralized manner such that activities are consistent across the group and for "all legal entities." Similar to APCIA's comments on proposed changes to the Financial Analysis Handbook and the Financial Condition Examiners Handbook, we believe this section of the ORSA Manual should be prefaced with some language from the "overarching concepts" in the Introduction to ComFrame (but without citing ComFrame):

IAIGs have different models of governance (i.e., more centralized or more decentralized). No particular governance model is favored in the ORSA Manual guidance, which is intended to be read to apply to all models. The organization of an IAIG can be structured in various ways as long as the outcomes are achieved.

Furthermore, where the text suggests "across entities," mentions "all legal entities" or similar phrases to that effect, we suggest that the statements be elaborated to indicate "where appropriate in light of the IAIG's governance model (centralized or decentralized) and to the extent necessary to cover all relevant and material risks to the enterprise."

### 3. We have some concern with this paragraph as well:

“The risk management strategy and framework of an IAIG should be as consistent as possible across the legal entities with material differences only due to supervisory requirements in the jurisdictions where the IAIG operates and the risks associated with the business conducted in those jurisdictions. Any material differences should be described in the ORSA. The framework should include....”

In particular, and in light of ComFrame’s recognition of different business models (centralized or decentralized), IAIGs could have material differences in their risk management strategy and framework that do not relate solely to differences in jurisdictional supervisory requirements or risks associated with the business conducted in different jurisdictions. In that regard, we suggest the changes shown below:

“The risk management strategy and framework of an IAIG should be as consistent as possible across the legal entities with material differences described in the ORSA, e.g., if related to the IAIG’s business model (decentralized v. centralized), ~~only due~~ to supervisory requirements in the jurisdictions where the IAIG operates or and to the risks associated with the business conducted in those jurisdictions. ~~Any material differences should be described in the ORSA. The framework should include....~~”

### 4. This section of the ORSA Manual also includes the following with respect to liquidity risk:

“The risk management framework should include a series of mechanisms to manage the IAIG’s liquidity risk and demonstrate the IAIG’s resilience against severe but plausible liquidity stresses. These mechanisms include:

- A liquidity risk appetite statement and liquidity risk limits to determine if the current liquidity position of the IAIG is within the risk appetite and the limits;
- Strategy, policies and processes to manage liquidity risk;
- Liquidity stress testing;
- An adequate level of unencumbered highly liquid assets;
- Contingency funding to mitigate potential liquidity stresses.”

Property and casualty insurance is not a business model that is prone to liquidity risk, certainly not to any degree close to that of some other lines of insurance. Indeed, criteria in the NAIC’s Liquidity Stress Testing Framework scopes in only life insurance legal entities or life insurance groups exceeding the threshold for any of the six activities identified in the framework. We therefore suggest that this section of text on liquidity risk be modified to recognize that liquidity risk is not a material risk for property and casualty insurers/groups.



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July 8, 2022

Mr. Justin Schrader, Chair  
 Group Solvency Issues (E) Working Group  
 National Association of Insurance Commissioners  
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RE: NAIC ORSA Guidance Manual – Proposed ComFrame Revisions

Dear Mr. Schrader:

The Travelers Companies, Inc. (“Travelers”) appreciates the opportunity to provide comments on the NAIC ORSA Guidance Manual (the “Manual”) – Proposed ComFrame Revisions that was exposed for comment by the NAIC Group Solvency Issues (E) Working Group.

In reviewing the proposed revisions, we note the following comments:

Overall, we note references to the IAIS ComFrame and ICP 16 as discussed below. We recommend that all references to ComFrame and any ICP be removed and instead the specific concepts be included in the Manual. Because the Handbook has been adopted by reference in NAIC Model Law #440, *Insurance Holding Company System Regulatory Act* (Model #440), and substantively codified into statute by all states in the U.S., the inclusion of a reference to ComFrame and specific ICPs would result in any future changes adopted by the IAIS being automatically incorporated into the Manual without any review or action by the NAIC. The NAIC should instead document its consideration of the concepts in the IAIS ComFrame and ICPs outside of the Manual and include its conclusions, along with its rationales, in the documentation.

- The current version of the Manual already references ICP 16 (dealing with ERM) on page 5. This is problematic as it implicitly cedes state authority to the IAIS as described above.
- The current version of the Manual allows for a combination of ORSA reports rather than a single report for all non-exempt insurers. The exposed Manual (on page 2) mandates a single ORSA report for U.S.-domiciled IAIGs, and only for such entities. It is unclear what the rationale is for that sole exception. We recommend a requirement for an aggregated ORSA report to only be mentioned in the new section V (starting on page 13).
- The exposed version of the Manual (on page 8) would require insurers to prioritize their key risks. Many insurers do not prioritize their risks currently as the risks can have equal priority. A simple example would be which of your legs is the higher priority for standing up straight, your left or your right? There is little value in attempting to prioritize some risks over others if the risks are identified and managed appropriately. We recommend deleting the word “prioritized” in the last sentence of the second bullet in II. Section 1.
- On page 10 there is a reference to “Head of the IAIG” which appears to mean the legal entity that manages the IAIG as described in the proposed changes to the *NAIC Financial Analysis Handbook* (the “Handbook”). The Handbook defines head of the IAIG on page 18 of 106 as “the entity most responsible for direct supervision of the insurance operations of the group.” The use of the term “supervision” is confusing in this context as it is generally used to reference the responsibilities of a regulator. We recommend that the term of reference in the Handbook be changed to the “IAIG controlling entity” and the definition revised to read: “. . . the entity most responsible for the direct management/control of the insurance operations of the group.”

The word “the” should be inserted before “U.S. global group-wide supervisory” in the third sentence of the fourth paragraph.

- The new language on page 12 is misplaced within the current bullet point. The list of bullet points are items that should be considered. In contrast, the new bullet point is a list of requirements, not possible considerations. It is inappropriate to include detailed requirements for an item that only needs to be considered. If the intent is to mandate those actions for liquidity risk evaluation, then liquidity risk should be removed from the bullet point list.

It is also inappropriate to assume that liquidity risk is always material, as this list of liquidity risk requirements seems to assume.

In addition, the mandated actions for liquidity risk should instead be generic items for any material risk (e.g., demonstrated resilience, compliance with risk appetite/limits, contingency funding, mitigation plans).

If this language is retained elsewhere in the document, the word “any” before “liquidity risk appetite” should be replaced with “the insurer’s”.

This new mandate for liquidity risk evaluation is already in place for IAIGs in the new wording on pages 15 and 26. This wording would extend the mandate to non-IAIGs. We believe this evaluation should be done only when liquidity is a material risk.

- The reference to “IAIS ComFrame” at the beginning of Section V on page 13 should be removed. The reference will cause confusion among preparers and regulators as to where the incorporation of ComFrame by reference begins and ends. The NAIC has appropriately discussed and decided what concepts from ComFrame should be incorporated. No additional reference is needed.
- At the end of page 13 through the beginning of page 14, the document states that the “*risk management framework should be integrated within the organizational structure of the IAIG and within its legal entities as appropriate to ensure that ... the business operations ... are consistently implemented*”. What does this mean? How or why would an insurance group “*consistently implement*” business operations in different countries?
- In the middle of page 14 it states that “*The ORSA should explain the main activities of each of these functions [i.e., the risk management, actuarial and internal audit functions].*” The statement is overly broad, as not all actuarial and internal audit functions are involved in risk management. We suggest clarifying that sentence by adding at the end “*in the context of the ORSA*”, or similar language to confine the explanation to ORSA-specific areas.

The last paragraph of page 14 is problematic where it states, “*the risk management strategy and framework ... should be as consistent as possible across legal entities with material differences only due to supervisory requirements ... and the risks associated with the business conducted in those jurisdictions*”. We note that one difference may be due to different products (and hence different risks) in the same jurisdiction. We’re also concerned that this requirement would overemphasize consistency where it isn’t required or doesn’t make sense. For example, this wording would ignore differences due to different business volumes in different countries. The strategy where an operation is small may be different from the strategy taken for a large operation.

That same paragraph requires that “*any material differences should be described in the ORSA*”. For a large international group this could be a large section of the ORSA and distract from the important risks of the group.

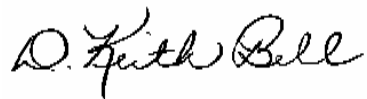
- On page 15 in the first full bullet of that page it states that model results and [all?] the underlying assumptions should be presented in the ORSA [report?]. That covers a lot of detail and appears to over-specify what should be included in the ORSA report.

The paragraph on page 15 with regard to recovery plans suggests items that are unrelated to the insurance group’s risks and don’t belong in an ORSA. It also suggests more certainty in the stress environment than is likely to exist in such an environment, as options identified in advance are unlikely to be operational exactly as envisioned before the crisis.

- Appendix C seems to be an excerpt (with a few changes) from the existing Financial Analysis Handbook. It needs better formatting or labeling. On page 26 it requires (currently?) an independent review of the IAIG risk assessment framework “*once every three years*”. Is this a review conducted by the lead regulator or one that the insurance group uses a consultant to perform? This would seem to run the risk of having a third party with little knowledge of the insurance group’s risks spending an inordinate amount of time educating itself of the group’s risks. This does not seem to be cost justified and would be more frequent than the current zone exams are conducted. (This same requirement is also on page 15 of the ORSA manual).
- On page 26 it states that the ORSA is required to show “*the economic ... capital*”, but that is not a defined term. “Economic capital” accounting is not an other comprehensive basis of accounting. There should be some definition (and some acknowledgement that it is at best a loosely defined term without consistent calculation).
- The last bullet point on page 26 is not practicable as it asks for delineating at a high level “*recovery options available*” in a severe stress situation. But in a severe stress situation not everything is knowable in advance. We recommend changing the wording to “*recovery options that may be available*”. Similarly, the last sentence of this bullet point presumes the ability to “*produce information ... on a timely basis*” in a severe scenario. That wording also needs clarification to reflect the uncertainty that is likely in an extreme scenario.

Thank you, again, for the opportunity to comment. If you have any questions or would like to discuss our comments, please feel free to call Keith at (860) 277-0537 or Ralph at (860) 277-9975.

Sincerely,

Handwritten signature of D. Keith Bell in black ink.Handwritten signature of Robert S. Blankenship in black ink.





**D. Keith Bell**  
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*Accounting Policy*

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July 8, 2022

Mr. Justin Schrader, Chair  
 Group Solvency Issues (E) Working Group  
 National Association of Insurance Commissioners  
 1100 Walnut Street, Suite 1500  
 Kansas City, MO 64106-2197

RE: NAIC Financial Condition Examiners Handbook – Proposed ComFrame Revisions

Dear Mr. Schrader:

The Travelers Companies, Inc. (“Travelers”) appreciates the opportunity to provide comments on the NAIC Financial Condition Examiners Handbook (the “Examiners Handbook”) – Proposed ComFrame Revisions that was exposed for comment by the NAIC Group Solvency Issues (E) Working Group.

In reviewing the proposed revisions, we would note the following comments:

Overall, we note reference to the IAIS ComFrame and various Insurance Core Principles (or ICPs) as discussed below. We recommend that all references to ComFrame and ICPs be removed and instead the specific concept be included in the Examiners Handbook. NAIC Model Law #390, *Model Law on Examinations* (Model #390) requires the insurance regulator to observe the directions set forth in the Examiners Handbook in determining the frequency and scope of a financial examination as well as the procedures to be applied. Because the Examiners Handbook includes a reference to NAIC Model Law #440, *Insurance Holding Company System Regulatory Act* (Model #440), which, along with Model #390, have been substantively codified into statute and adopted by reference by all states in the U.S., the inclusion of a reference to ComFrame and any specific ICP would result in future changes adopted by the IAIS being automatically incorporated into the Manual without any review or action by the NAIC.

On page 1 there is a reference to “Head of the IAIG” which appears to mean the legal entity that manages the IAIG as described in the proposed changes to the Handbook. The Examiners Handbook defines head of the IAIG on page 18 of 106 as “the entity most responsible for direct supervision of the insurance operations of the group.” The use of the term “supervision” in this context is confusing as it is generally used to reference the responsibilities of a regulator. We recommend that the term of reference in the Examiners Handbook be changed to the “IAIG controlling entity” and the definition revised to read: “. . . the entity most responsible for the direct management/control of the insurance operations of the group.”

On page 14, the proposed guidance includes the specific criteria related to premiums written, the percentage of gross written premiums written outside the United States, and the three-year rolling average of the total assets or total gross written premiums as included in Model #440. In the event there are future changes to the criteria included in Model #440, the specific criteria included in the Examiners Handbook would also require changes to be consistent with the criteria included in Model #440. In order to keep the Examiners Handbook consistent with any future updates to Model #440, we recommend that the first paragraph be modified as follows to replace the specific criteria:

U.S. based insurance holding company systems that operate internationally are identified as Internationally Active Insurance Groups (IAIGs) if they meet the criteria included in model #440. The examiner should evaluate the criteria of Model #440 as adopted by the lead state of the U.S. based insurance group to evaluate the factors such as the number of countries outside the U.S. in which the entity is writing premium, the percentage of gross written premiums outside the U.S. to total premium, and the three-year rolling average of the insurance holding company system assets or gross written premium to determine if the group meets the definition of an IAIG.

Additionally, we recommend removing the following sentence on page 14: “Such areas are largely consistent with the International Association of Insurance Supervisors’ (IAIS) Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) deemed applicable by state insurance regulators.” The inclusion of a reference to ComFrame will result in changes made by the IAIS to ComFrame being automatically incorporated by reference into the Examiners Handbook and would generally cede state authority to the IAIS. We also recommend removing all references to the ComFrame and the ICPs for the same reasons.

On page 15, we recommend either removing the following sentences or revising it to remove references to ComFrame and ICPs as the NAIC is not adopting ComFrame or the ICPs:

ComFrame is to be applied flexibly and proportionately and therefore not every additional area of IAIG supervision will apply to each IAIG or will apply in the

same way or to the same extent. Group-wide supervisors have the flexibility to tailor implementation of supervisory requirements and application of insurance supervision. ComFrame is not a one-size-fits-all approach to IAIG supervision as the goal is to achieve the outcomes set forth in ComFrame. IAIGs have different models of governance (e.g., more centralized or more decentralized). ComFrame does not favor any particular governance model and is intended to apply to all models.

Page 74 contains the following sentence: “The ORSA Guidance Manual defines this as key to the insurer, and responsibility for this activity should be clear. The risk management function is responsible for ensuring the processes are appropriate and functioning properly, and that key risks of the insurer are identified, prioritized, and clearly presented.”

We recommend that the word “prioritized” be removed as there are many risks that have equal weight, and it is more important that the risk be identified and appropriately addressed in the control structure of the group.

Page 99 contains a statement that “Many critical aspects of governance usually occur at the holding company level.” For many insurance groups in the U.S., the holding company is exactly as the name implies, it is a holding company that owns the insurance group and obtains capital for the group through the issuance of common stock, debt, or other financial instruments. In these types of structures there is frequently a lead company or service company from which the corporate functions are provided, including corporate governance. We recommend revising the sentence to read: “Many critical aspects of governance may occur at the holding company level, lead company, or service company within the corporate structure of the group.”

Page 236 provides a new “Holding Company Considerations” section within Exhibit M and references IAIGs and the Head of the IAIG. We recommend including the reference “as defined in Model #440” after the following: “including Internationally Active Insurance Groups (IAIGs), as defined in Model #440”.

Similar to the comment noted above, page 247 includes a reference to IAIG within new guidance included for Exhibit Y for examination interviews. We recommend including “as defined in Model #440” after “IAIG” in the first new sentence.

Thank you, again, for the opportunity to comment. If you have any questions or would like to discuss our comments, please feel free to call me at (860) 277-0537.

Sincerely,





**D. Keith Bell**  
*Senior Vice President*  
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July 8, 2022

Mr. Justin Schrader, Chair  
 Group Solvency Issues (E) Working Group  
 National Association of Insurance Commissioners  
 1100 Walnut Street, Suite 1500  
 Kansas City, MO 64106-2197

RE: NAIC Financial Analysis Handbook – Proposed ComFrame Revisions

Dear Mr. Schrader:

The Travelers Companies, Inc. (“Travelers”) appreciates the opportunity to provide comments on the NAIC Financial Analysis Handbook (the “Handbook”) – Proposed ComFrame Revisions that was exposed for comment by the NAIC Group Solvency Issues (E) Working Group.

In reviewing the proposed revisions, we would note the following comments:

Overall, we note references to the IAIS ComFrame and various Insurance Core Principles (or ICPs) as discussed below. We recommend that all references to ComFrame and any ICP be removed and instead the specific concept be included in the Handbook. Because the Handbook has been adopted by reference in NAIC Model Law #440, *Insurance Holding Company System Regulatory Act* (Model #440), and substantively codified into statute by all states in the U.S., the inclusion of a reference to ComFrame and specific ICPs in the Handbook would result in any future changes adopted by the IAIS being automatically incorporated into the Manual without any review or action by the NAIC.

Page 5 contains the following section:

IAIG: For internationally active insurance groups (IAIGs) where a state insurance regulator is acting as the group-wide supervisor (see VI.B for criteria and definitions), it may be necessary to address additional areas regarding

group-wide activities and risks. Such areas are largely consistent with the International Association of Insurance Supervisors' (IAIS) Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) and have been incorporated throughout this chapter as deemed appropriate by state insurance regulators. While such considerations and procedures are applicable to insurance groups identified as IAIGs (see state adoption of Model #440 Section 7.1), similar procedures applicable under the state's adoption of Model #440 Section 6 may also be appropriate for use in the supervision of other large insurance groups that do not meet the IAIG criteria. In assessing any such application, analysts must not exceed their legal authority and any supervisory measures should be risk-based and proportionate to the size and nature of the group.

Likewise, because ComFrame is to be applied flexibly and proportionately, not every additional area of IAIG supervision will apply to each IAIG or will apply in the same way or to the same extent. Group-wide supervisors have the flexibility to tailor implementation of supervisory requirements and application of insurance supervision. ComFrame is not a one-size-fits-all approach to IAIG supervision as the goal is to achieve the intended outcomes set forth in ComFrame. IAIGs have different models of governance (e.g., more centralized, or more decentralized). ComFrame does not favor any particular governance model and is intended to apply to all models. The organization of an IAIG can be structured in various ways as long as the intended outcomes are achieved. Proportionate application, which is called for in IAIS guidance, involves using a variety of supervisory techniques and practices tailored to the insurer. The techniques and practices applied should not go beyond what is necessary in order to achieve the intended outcomes of the IAIS' Insurance Core Principles and ComFrame.

We recommend that this section be revised to remove all references to ComFrame as it will result in users, including regulators, using ComFrame as a reference when there is confusion as to the intent of the specific application of the Handbook guidance. It is important that the NAIC document their review of ComFrame in the Working Group's work, including the conclusions reached regarding ComFrame and the ICPs, but all such references should be kept outside of the Handbook.

Page 8 contains the following wording:

IAIG: In addition, Model #440 provides definitions for Internationally Active Insurance Group (IAIG) and group-wide supervisor, which allow state insurance regulators to fulfill roles consistent with ComFrame for cooperation across international jurisdictions in supervising IAIGs. See additional information in VI.B.

We recommend that the reference to ComFrame be removed from this section but retained in the Working Group's documentation of its review and conclusions.

Page 11 contains the following wording:

IAIG: In addition to the general governance and risk management considerations and the targeted procedures related to specific concerns incorporated into financial examinations, there are additional considerations highlighted in ComFrame that may be appropriate for incorporation into ongoing IAIG financial exams led by the group-wide supervisor. These considerations generally relate to ComFrame elements that are more effectively evaluated through on-site examination activities, such as the effectiveness of corporate governance, risk management and internal control frameworks in place at the head of the IAIG. For more information on IAIG examination considerations, please see Section 1.I.F of the NAIC's Financial Condition Examiners Handbook.

We recommend that the reference to ComFrame be removed from this section but retained in the Working Group's documentation of its review and conclusions. This particular paragraph has the danger of implying that analysts/examiners should consult ComFrame in addressing issues that should be addressed in a financial examination.

Page 17 contains the following wording: "However, IAIS materials are not deemed authoritative and should not be viewed as official NAIC guidance if they are not directly incorporated into this chapter."

We fully agree with this statement and cannot overly stress the importance of removing the references to IAIS materials from the Handbook for the reasons state on page 17.

Page 18 contains a definition of "the head of the IAIG" (page 18 of 106) as "the entity most responsible for direct supervision of the insurance operations of the group". This term is used through the Handbook, the Financial Condition Examiners Handbook, and the ORSA Guidance Manual. The use of the term "supervision" is confusing in this context as it is generally used to reference the responsibility of a regulator. We recommend that the term of reference in the Handbook be changed to the "IAIG controlling entity" and the definition revised to read: "... the entity most responsible for the direct management/control of the insurance operations of the group."

Page 21 contains the following wording:

The lead state commissioner should discuss with the global group-wide supervisor from the relevant foreign jurisdiction(s) the report received from the global group-wide supervisor to inquire of any concerns and to either confirm that the report was compliant with the foreign jurisdictions' requirements or consistent with the applicable principles outlined in the International

Association of Insurance Supervisors (IAIS) Insurance Core Principle (ICP) 16: Enterprise Risk Management (ERM), as well as the NAIC Own Risk and Solvency Assessment (ORSA) Guidance Manual to determine if additional information is needed. The commissioner will, where possible, avoid creating duplicative regulatory requirements for internationally active insurers.

The wording implies that the report either complies with the foreign jurisdiction's requirements or ICP 16. If the jurisdiction adopted ICP 16, the answer is both not either/or. We recommend revising the wording to state that the lead state commissioner should confirm if the report complies with the foreign jurisdiction's requirements and, if so, are there any differences between the jurisdiction's requirements and the applicable principles of ICP 16 as adopted by the IAIS in October 2011 (or more recent date). As the IAIS revises ICP 16 over time, the NAIC would be better served by either specifying the applicable principles that it expects to see or ICP 16 at a specific point in time. Otherwise, the principles will be a moving target over time and the NAIC will have incorporated future IAIS actions into the Handbook without discussion and consideration of those changes prior to adoption.

Page 82 contains the following wording:

In addition to U.S. guidance, the International Association of Insurance Supervisors (IAIS) has developed guidance for regulators in conducting and participating in supervisory colleges, which are primarily presented in Insurance Core Principle (ICP) 25 – Supervisory Cooperation and Communication, as well as additional considerations and best practices in the IAIS' Application Paper on Supervisory Colleges. Information from these sources has been utilized in developing this chapter and regulators are encouraged to reference the source documents as necessary to gather additional insight. However, IAIS materials are not deemed authoritative and should not be viewed as official NAIC guidance if they are not directly incorporated into this chapter.

This wording contradicts itself by referring the reader to ICP 25 for additional insight but then states that the materials are not authoritative. We recommend deletion of the reference to ICP 25 and a thorough review of the proposed wording in the Handbook to ensure that the concepts adopted by the NAIC are fully explained and discussed.

Page 83 contains the following sentence: "ICP 25-Supervisory Cooperation and Communication provides among other things, the following guidance related to supervisory colleges that is hereby incorporated into this chapter:"

For the reasons discussed above, we recommend deletion of the reference to ICP 25.

Page 98 states: "U.S. Based IAIG Considerations - While the guidance included in this chapter is generally applicable to all supervisory colleges, there are some specific considerations and requirements for IAIG supervisory colleges that should be followed

by U.S. groupwide supervisors as summarized below. For additional background information and best practice suggestions, please see ICP 25.”

For the reasons discussed above, we recommend deletion of the reference to ICP 25.

Page 100 contains the following references:

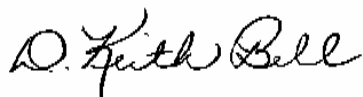
<sup>iv</sup> Refer to ICP CF 16.15 and the IAIS “Application Paper on Recovery Planning” for more background information and possible best practice guidance regarding: governance, monitoring, updating the recovery plan, and key elements of a recovery plan (e.g., stress scenarios, trigger frameworks to identify emerging risks, recovery options, communication strategies, and governance). (<https://www.iaisweb.org/home>)

<sup>v</sup> Refer to ICP CF 12.2 and 12.3 and the Application Paper on Resolution Powers and Planning for more background information and possible best practice guidance including: approach to determining if resolution plans are needed, and key elements of a plan (e.g., resolution strategies, financial stability impacts, governance, communication, impact on guaranty fund systems). (<https://www.iaisweb.org/home>)

Including these references has the effect of including IAIS guidance in state regulatory requirements due to the manner in which states have adopted the Handbook (via reference). The inclusion of a reference to ComFrame and specific ICPs in the Handbook would also result in any future changes adopted by the IAIS being automatically incorporated into the Manual without any review or action by the NAIC. We recommend deletion of the references.

Thank you, again, for the opportunity to comment. If you have any questions or would like to discuss our comments, please feel free to call me at (860) 277-0537.

Sincerely,







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July 8, 2021

Justin Schrader, Chair  
Group Solvency Issues (E) Working Group  
National Association of Insurance Commissioners  
1100 Walnut St, Suite 1500  
Kansas City, MO 64106-2197

Re: Proposed Regulatory Guidance that incorporates key elements of the IAIS' Common Framework for the Supervision of Internationally Active Insurance Groups

Dear Mr. Schrader and members of the Working Group:

On behalf of the National Association of Mutual Insurance Companies (NAMIC),<sup>1</sup> thank you for the opportunity to provide comments addressing the work product of the ComFrame Financial Analysis Drafting Group regarding proposed Financial Analysis Handbook ("FAH Proposal") additions, Financial Condition Examiners Handbook ("Exam HB Proposal") revisions, and ORSA Guidance Manual revisions ("ORSA revisions").

Our comments can be classified into three general categories: 1) state regulatory authority; 2) Holding Company System Regulatory Act considerations; and 3) considerations regarding the IAIS' Reference Insurance Capital Standard (ICS) and Aggregation Method (AM). We offer general observations on these topics as well as recommendations to consider. NAMIC members appreciate that changes to both referenced handbooks and the ORSA Guidance Manual need to be considered carefully, as these materials are typically incorporated by reference, introducing additional complexity when considering the overall impact of the proposed changes.

First, the proposed guidance includes several references that exceed state insurance regulatory authority; therefore, we suggest deleting those references or amending the proposal as appropriate. In addition, the

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<sup>1</sup> The National Association of Mutual Insurance Companies is the largest property/casualty insurance trade group with a diverse membership of more than 1,500 local, regional, and national member companies, including seven of the top 10 property/casualty insurers in the United States. NAMIC members lead the personal lines sector representing 66 percent of the homeowner's insurance market and 53 percent of the auto market. Through our advocacy programs NAMIC promotes public policy solutions that benefit NAMIC member companies and the policyholders they serve and foster greater understanding and recognition of the unique alignment of interests between management and policyholders of mutual companies.



reference to the Insurance Holding Company System Regulatory Act #440 Section 6 and Section 7.1 is not clear as to what the intent is behind including this language in terms of how similar procedures under Section 6 – Examination – may be appropriate in the context of the supervision of non-IAIGs. Finally, as it applies to the IAIS' ICS currently under development, we believe it is premature to reference the ICS and/or the AM given that we are only at the mid-point of the monitoring period and the comparability process is still ongoing.

Below we have included several examples and suggestions aligning with these broad themes. First, we direct your attention to issues related to state regulatory authority.

#### Financial Condition Examiners Handbook

In the section outlining procedures and considerations regarding outsourcing of critical functions (Section III. F), it is not clear to what extent are outsourcing agreements leading to solvency concerns and/or increased regulatory inquiry. NAMIC members inquire about the intent behind including the proposed requirements to evaluate an insurers due diligence effort in regards to entering into and managing outsourcing agreements.<sup>2</sup> The evaluation and verification of *affiliate* transactions is an established regulatory practice and existing handbook guidance supports regulators ability to review these transactions to determine if they meet the 'fair and reasonable' standard; for example. However, that guidance is only applicable to affiliated transactions related to Form D filings, and we are not aware of any state law that establishes authority for regulators to take regulatory action based on an insurers process for entering into and managing ongoing *outsourcing* arrangements. We suggest proceeding with caution and consider removing language that may go beyond the authority of current NAIC model laws. Absent any state law granting express authority to take regulatory action based on an insurer's outsourcing arrangements or authority for a regulator to formally disapprove or require an insurer to terminate one that a regulator feels is inappropriate, we believe removing the proposed language referenced on page 44 of the Financial Condition Examiners Handbook is necessary.

The proposal includes additions to the section on reviewing and utilizing the results of an Own Risk and Solvency Assessment, and we suggest minor modifications to the proposed language. Instead of suggesting that the ORSA Summary Report is "expected to be filed at the Head of the IAIG...", we propose the opening sentence on page 84

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<sup>2</sup> Page 44 of proposed changes to the Financial Condition Examiners Handbook: "When conducting an examination of insurers that are part of a holding company group, including Internationally Active Insurance Groups (IAIGs), the exam team should evaluate whether appropriate due diligence has been performed prior to entering new material outsourcing agreements. The exam team should also take steps to determine the extent to which management at the applicable level (e.g., Head of the IAIG, ultimate parent company level, insurance holding company level, legal entity level, etc.) is able to provide ongoing risk assessment and oversight of outsourced functions and any contingency plans for emergencies and service disruptions."



of the Exam HB Proposal be modified to read, “The ORSA Summary Report *may* be filed at the Head of the IAIG...”. Given the decision as to what level of an organization should file the ORSA Summary Report is for the insurer to make, the regulator lacks the authority to reject an ORSA because they disagreed with what level of an insurance group filed the ORSA.

Understanding the proposed table/chart on page 84/85 (Appendix C) of the Exam HB Proposal are considerations if applicable to an IAIG; nevertheless, the references to recovery plans have no basis in the U.S. legal framework. We are not aware of any legal requirement for U.S. insurers to develop and maintain recovery plans. Certainly, insurers develop and maintain business continuity plans and disaster recovery plans and there are exam procedures to assist regulators with reviewing those plans, but to our knowledge no existing state law or regulation requires insurers to have recovery plans. We suggest removing the considerations and test procedures that reference “recovery plan options” from the proposal.

A new section has been proposed to be included in Exhibit M – Understanding the Corporate Governance Structure that are specific considerations for IAIGs.<sup>3</sup> These proposed considerations go beyond what is currently required to be filed with the lead state in accordance with the Corporate Governance Annual Disclosure Model Act #305 and Regulation #306. Including adequacy of board procedures, effectiveness of information delivery to the board at the level of detail requested goes beyond what is required to be disclosed in the annual CGAD report. The current exam procedures for assessing the board of directors already include guidance to help determine the overall effectiveness of board monitoring and oversight as well as processes to review independence standards and the sufficiency of the flow of information from management to the board of directors. Therefore, we suggest removing the proposed section in its’ entirety and maintain the current exam procedures to evaluate the effectiveness of board oversight.

#### ORSA Guidance Manual

We have two suggested changes to the proposed ORSA Revisions that are similar to suggested amendments previously mentioned above. First in regard to the ORSA Summary Report, page 10 of the proposed ORSA Revisions prescribe what should be included in the scope of the ORSA Summary Report. As previously noted, the level at which the ORSA Summary Report is filed is up to the insurer that has the legal obligation to file it. In addition, on page 19 new proposed language states, “an aggregated ORSA Summary Report should be filed at the Head of the IAIG level.” In each instance, we suggest replacing “should” with “may” to reflect that the decision to determine what level of an organization should file the ORSA Summary Report is for the insurer to make.

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<sup>3</sup> Page 244 of the Exam HB Proposal proposes to add paragraph F to Exhibit M – Understanding the Corporate Governance Structure.



Second, and similar to our point about recovery plans, page 21 of the proposed ORSA Revisions includes language that states, “the group-wide supervisor should determine whether to require that the IAIG develop a formal recovery plan...” Again, we are not aware of any legal requirement for U.S. insurers to develop and maintain recovery plans. We suggest removing the second to last newly proposed paragraph on page 21 due to the lack of regulatory authority to require recovery plans.

#### Financial Analysis Handbook

The FAH Proposal includes new guidance in the *Group-Wide Supervision – Insurance Holding Company System Analysis Guidance (Lead State)* section that adds additional procedures for U.S. based IAIGs. Included in this new section are procedures and considerations regarding outsourcing of critical functions including policies and contractual requirements; ongoing risk assessment and oversight of outsourced functions; and contingency plans for emergencies and service disruptions. None of these considerations are required legal standards and U.S. supervisors lack any specific authority over outsourcing arrangements. We suggest removing item 5.a. from page 48 of the FAH Proposal.

Similar to the point we raised above regarding specific considerations for IAIGs in understanding the corporate governance structure, the proposed changes to the FAH go beyond what is authorized by U.S. regulatory law. Pages 55-56 of the FAH Proposal contains new provisions that include a level of analysis and potential remedial requirements regarding a range of corporate governance matters that are not authorized by CGAD. It is not clear what regulatory gaps exist in regard to concerns arising from board suitability matters and policies that identify and avoid or manage conflicts of interest. Documenting material concerns based on the analyst’s review of the CGAD should be the goal of this section; subjective assessments of suitability matters and board policies and processes that do not raise material concerns should be avoided. Therefore, we suggest removing item 6.a., 6.b., and 7.a. from this section.

In the proposed supervisory colleges guidance under Crisis Management Group, a provision has been added that suggests “the group-wide supervisor, in consultation with the CMG, should determine whether to require that the IAIG develop a formal recovery plan.” We maintain that this provision has no basis in U.S. law. As previously mentioned, the authority to require recovery plans does not exist for state regulators; therefore, we suggest removing the first bulleted provision on page 100 of the FAH Proposal.

#### Insurance Holding Company System Regulatory Act #440 Section 6 and Section 7.1

Next, we would like to raise a few issues where additional clarification is warranted regarding NAIC Model #440. On Page 14 of the draft Exam HB Proposal a new section, entitled “F. Coordinated Examinations of Internationally



Active Insurance Groups” has been proposed which includes a discussion of qualifications of U.S. based insurance holding company systems to be considered as IAIGs. It also notes that the examination should be conducted consistent with the IAIS’s ComFrame when deemed applicable by state insurance regulators. Also added to this new section is a discussion about Model #440 Section 7.1 – *Group-Wide Supervision of Internationally Active Insurance Groups* – and Section 6 – *Examination*. It is not entirely clear what the intent is behind including these references particularly as how this applies to non-IAIGs. The language in question is included herein:

“While the considerations and procedures outlined in the chart above are applicable to insurance groups identified as IAIGs (see state adoption of Model #440 Section 7.1), similar procedures applicable under the state’s adoption of Model #440 Section 6 may also be appropriate for use in the supervision of other large insurance groups that do not meet the IAIG criteria. In assessing any such application, state insurance regulators must not exceed their legal authority and any supervisory measures should be risk-based and proportionate to the size and nature of the group.”

NAMIC is concerned with adding a suggestion on how an examination could be conducted for non-IAIGs under a new section dedicated for IAIGs. NAMIC suggests clarifying its meaning and relocating the language to a more appropriate section. The new language is not clear, and we do not have a good understanding of what is meant by Model #440 Section 6 “may also be appropriate for use in the supervision of other large insurance groups that do not meet the IAIG criteria.” The procedures referred to in the chart preceding the above-referenced language on page 14 of the Exam HB Proposal are already included in the handbook, so changes of this nature may not be necessary and have potential to create confusion.

#### References to the IAIS’ Insurance Capital Standard and Aggregation Method

The final point we want to raise is the group capital methodology to be analyzed by regulators and the need to either caveat that nothing within the documents should be interpreted that the NAIC endorses or supports the use of the ICS or remove references to the ICS and/or AM altogether.

In two areas, we suggest including such a caveat or the removal of the reference to ensure the reader doesn’t think that the NAIC endorses the ICS. On pages 46 and 99 of the FAH Proposal there are references to group capital reporting and discussions of group capital such as the Aggregation Method or the Reference Insurance Capital Standard. These are areas where an appropriate caveat is warranted. However, it may be premature for the handbooks to reference ICS and/or AM given that the ICS is in the monitoring period and not fully adopted yet. Furthermore, the comparability process is ongoing. If regulators want to include something on capital,



perhaps consideration to have these materials reference the Group Capital Calculation, which has already been adopted by the NAIC makes the most sense. The GCC is being implemented in the states and recognized through the covered agreements by the US and the EU and UK.

### Conclusion

Again, NAMIC members appreciate the importance behind ensuring that these regulatory materials and any proposed changes to them receive regulator and industry feedback and appreciate the hard work that regulators have already poured into these materials. We look forward to discussing the questions we have raised regarding state insurance regulatory authority, NAIC model laws, and the current development of the IAIS' ICS and how these materials reflect these evolving factors.

Thank you for your consideration of these comments on this matter of importance to insurers and policyholders. As the working group moves towards finalizing ComFrame implementation, NAMIC looks forward to continued engagement on these issues.

Sincerely,

Jonathan Rodgers  
Director of Financial and Tax Policy  
National Association of Mutual Insurance Companies

## Financial Condition Examiners Handbook ComFrame Exposure - Comment Matrix

Commenter	#	Topic	How Addressed	FCEH Reference
ACLI	3	Evaluation of Recovery Plans - Evaluation of recovery plans should be conducted by the GWS. Therefore, this procedure should be removed or adjusted.	Added language clarifying that ORSA related procedures in this section are applicable only to U.S. based IAIGs to be performed by the Group Wide Supervisor	Section 1, XI
ACLI	4	Recovery Plan Separate from ORSA - Clarify in exam guidance that a recovery plan is separate from the ORSA and that the ORSA would only have high-level information on recovery plan options.	Edited "Possible Test Procedure" to indicate that recovery plan options should be "summarized" in the ORSA rather than "presented".	Section 1, XI
ACLI	5	Flexibility in Governance Structures - Suggested language edits to clarify that there is flexibility in where and how various functions are placed within the group.	Edited language to add "lead company, or service company within the corporate structure of the group" when describing the level at which governance services may be provided.  (Consistent with edits in response to APCIA comment #4 and Travelers comment #5)	Section 4 - Exhibit M
APCIA	1	ComFrame References - Suggest elimination of ComFrame references or at a minimum edits to the language to clarify that there is no intent to incorporate by reference.	Language edits to paragraph preceding the table to more clearly reflect that regulators have deemed these elements applicable, as well as to clarify that IAIS references are for informational purpose only and should not be viewed as authoritative, which is consistent with language incorporated in the FAH.	Section 1, I
APCIA	2	Exam Repository Risks - Suggest changes to language and references to clarify that application of procedures at IAIG level is optional and to clarify when it would be most appropriate to evaluate risks and controls at that level.	Updated general statement on each relevant repository to indicate that "risks identified with the dagger symbol may warrant additional procedures or consideration at the Head of the Internationally Active Insurance Group (IAIG) or level at which the group manages its aggregated risks", and marked each relevant risk accordingly. Also added language edits suggested in the comment letter to clarify that where IAIGs have a decentralized business model, it may be appropriate to evaluate those risks at the subgroup or legal entity level.	Section 3 - Exam Repositories

APCIA	3	IAIG Risk Management Assessment Considerations - Recommended language for consistency with FAH, as well as language to clarify that independent review of ERM can be performed by an internal or external body as long as they are not directly involved in the ERM framework.	Language edits to intro paragraph accepted, which moves the first sentence lower in the paragraph and adds "however, examiners must not exceed their legal authority and any supervisory measures should be risk-based and proportionate to the size and nature of the group".  Language edits to "Topics/Considerations" related to review of the risk management framework accepted. Edits clarify that the independent review may be performed by an internal or external body as long as the reviewer is independent and not responsible for, nor actively involved in, the groupwide ERM framework.	Section 1, XI
APCIA	4	Holding Company Considerations - Recommending language to clarify that various structures and models of governance are acceptable for IAIGs.	Language edits accepted, which clarify that no particular governance model is favored, that guidance is not expected to apply to all models, and that IAIGs may be structured in various ways.  (Consistent with edits in response to ACLI comment #5 and Travelers comment #5 )	Section 2 - Phase 1 Section 4 - Exhibit M
APCIA	5	Independence of IA Function - Recommend language edits to remove additional guidance stating that IA members do not have operational, risk management or accounting responsibilities	Clarified that new language is applicable unless a company is exempt from the MAR requirements in this area.	Section 4 - Exhibit E
APCIA	6	IAIG Board - Recommend language edits to limit responsibility for the Head of the IAIG's Board to take responsibility for all legal entities.	Language edits to remove the following text: "as a whole or any of its legal entities"	Section 4 - Exhibit M
Travelers	1	References to ComFrame and ICPs - Recommending removal of all references from FCEH to avoid confusion and incorporation by reference.	Consistent with decisions made by the analysis drafting group after receiving similar comments during its Fall 2021 exposure, the exam drafting group sees the benefit of providing limited references to ComFrame and the ICPs to provide regulators with additional background information and considerations.	Section 1, I
Travelers	2	Head of the IAIG Definition - Recommend language edits to Head of the IAIG definition in FCEH.	FCEH guidance does not define Head of IAIG. Instead, FCEH guidance references the FAH for the definition of "Head of IAIG". Note, FAH guidance was revised in light of this comment. No changes needed.	Section 1, I



Travelers	3	IAIG Criteria - Recommending removal of specific scoping criteria and replacing with general reference to Model #440.	Specific scoping criteria comes directly from the NAIC Model #440 and provides high-level information to assist the exam function in understanding if the procedures outlined in this section may be relevant.	Section 1, I
Travelers	4	ORSA Review - Recommending removal of expectation for key risks to be prioritized in ORSA filing.	FCEH guidance related to the ORSA Review should remain consistent with the requirements set forth in the ORSA Guidance Manual. This proposal would create inconsistencies and therefore, no changes needed.	Section 1, XI
Travelers	5	Governance - Recommended language to clarify that governance can be provided at different levels of organization.	Language edits accepted to add "lead company, or service company within the corporate structure of the group" when describing the level at which governance services may be provided  (Consistent with edits in response to ACLI comment #5 and APCIA comment #4 related to narrative Corporate Governance guidance)	Section 2 - Phase 1
Travelers	6	Exhibit M - Recommend adding Model #440 criteria reference when discussing IAIGs.	Language edits accepted to add "as defined in Model #440"	Section 4 - Exhibit M
Travelers	7	Exhibit Y - Recommend adding Model #440 criteria reference when discussing IAIGs.	Language edits accepted to add "as defined in Model #440"	Section 4 - Exhibit Y
NAMIC	1	Outsourcing Agreements - Recommend removal of expectation for material outsourcing agreements to be reviewed, unless they are with affiliates and covered under Model #440.	Broad authority is provided to insurance regulators through the Model Law on Examinations (NAIC #390) and the Insurance Holding Company System Regulatory Act (NAIC #440) to conduct investigations in accordance with procedures outlined in NAIC Handbooks. Such investigations assess the current and prospective solvency of an insurer, which includes an evaluation of governance and control processes over the outsourcing of critical functions. As such, the drafting group elects to retain guidance on a review of outsourced functions in the draft.	Section 1, III
NAMIC	2	IAIG Group ORSA - Recommend language edit to state that the "ORSA Summary Report <b>may</b> be filed at the Head of the IAIG".	FCEH guidance related to the ORSA Review should remain consistent with the requirements set forth in the ORSA Guidance Manual. This proposal would create inconsistencies and therefore, no changes needed.	Section 1, XI
NAMIC	3	ORSA Review Guidance: Recovery Options - Recommend removal of language related to a review of recovery options as there are no requirements for recovery plans to be put in place.	FCEH guidance related to the ORSA Review should remain consistent with the requirements set forth in the ORSA Guidance Manual. However, as noted in response to ACLI comment #4, the "Possible Test Procedure" was edited to indicate that recovery plan options should be "summarized" in the ORSA rather than "presented".	Section 1, XI

NAMIC	4	Exhibit M - Recommend removal of additional governance considerations for IAIGs as the topics covered extend beyond what is required to be covered in the CGAD (i.e. NAIC Models 305 & 306).	As discussed above, broad regulatory authority is available for conducting regulatory investigations and is not limited to reviewing or verifying information provided in an annual CGAD filing. In addition, Model #440 provides more specific authority to "request, from any member of an internationally active insurance group subject to the commissioner's supervision, information necessary and appropriate to assess enterprise risk, including, but not limited to, information about the members of the internationally active insurance group regarding: (a) Governance, risk assessment and management." Therefore, additional considerations when evaluating the governance practices of an IAIG are clearly within a regulator's authority. As such, the drafting group elects to retain this guidance in the current draft.	Section 4 - Exhibit M
NAMIC	5	F. Coordinated Examinations of IAIGs - Reference to Section 6 of Model #440 and how it could be utilized to apply selected IAIG exam procedures to non-IAIGs. Suggest removal or further clarification.	Language was taken from draft FAH guidance that was developed and reviewed in Fall 2021. The FA drafting group worked with interested parties (i.e. AHIP & BCBSA) to develop updated language indicating that similar procedures could be applicable to Non-IAIGs (e.g. review of group level processes), but only in limited circumstances and only as a result of a risk-based and proportionate approach. The reference to Model #440 Section 6 is highlight existing group exam authority available for all insurance groups, which allows governance and control processes to be reviewed at a group level during an exam, if deemed appropriate. NAIC legal reviewed and approved the referenced language.	Section 1, I

I. EXAMINATION OVERVIEW

This section of the Handbook addresses the following subjects:

- A. Exam Classifications Defined
- B. General Procedures for Scheduling an Examination
- C. Coordinating Examinations of Multi-State Insurers
- D. Coordination of Holding Company Group Exams
- E. Review and Reliance on Another State’s Workpapers
- F. Examinations of Internationally Active Insurance Groups
- F-G. Examinations of Underwriting Pools, Syndicates and Associations
- G-H. Special Financial Condition (E) Committee Examinations
- H-I. Limited-Scope Examinations
- I-L. Interim Work

F. Coordinated Examinations of Internationally Active Insurance Groups

U.S. based insurance holding company systems that operate internationally are identified as Internationally Active Insurance Groups (IAIGs) if they meet the following criteria included in Model #440:

- 1. Premiums written in at least three countries;
- 2. The percentage of gross premiums written outside the United States is at least ten percent (10%) of the insurance holding company system’s total gross written premiums; and
- 3. Based on a three-year rolling average, the total assets of the insurance holding company system are at least fifty billion dollars (\$50,000,000,000) or the total gross written premiums of the insurance holding company system are at least ten billion dollars (\$10,000,000,000).

For coordinated examinations of IAIGs where a state insurance regulator is acting as the global group-wide supervisor (typically the lead state in the case of a U.S. based insurance group), appropriate procedures related to group-wide activities and risks should be conducted. Such Elements, or topics, referencing the Insurance Core Principles (ICPs) areas, listed in the table below, are deemed applicable by state insurance regulators and are largely consistent with the corresponding measures included in the International Association of Insurance Supervisors’ (IAIS) Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) deemed applicable by state insurance regulators. Information from these sources has been utilized in developing this guidance and regulators are encouraged to reference source documents as necessary to gather additional insight. However, IAIS materials are not deemed authoritative and should not be viewed as official NAIC guidance if they are not directly incorporated herein. While the financial analyst is typically responsible for many of the group-wide supervision activities, certain elements of ComFrame may be evaluated more effectively through onsite examination procedures. These procedures are incorporated throughout the Handbook (identified by †), as applicable, and are summarized in the chart below.

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ICP Ref	Topic	Exam Procedure/Exhibit Reference
<u>ICP 5</u> <u>ICP 7</u>	<u>Corporate governance framework at the IAIG, including suitability of key individuals at the Head of the IAIG</u>	<u>Section 2, Part I</u> <u>Exhibit E – Audit Review Procedures</u> <u>Exhibit M – Corporate Governance Assessment</u> <u>Exhibit Y – Examination Interviews</u>
<u>ICP 8</u> <u>ICP 15</u> <u>ICP 16</u>	<u>Risk management framework at the IAIG, including groupwide considerations for internal control systems; internal audit, compliance, and actuarial functions; and outsourcing activities/functions.</u>	<u>Section 1, Part III</u> <u>Section 1, Part XI ORSA</u> <u>Exhibit M – Corporate Governance Assessment</u> <u>Respective Key Activity Examination Repositories</u>

	<u>Considerations of policies and practices for relevant key activities:</u> <ul style="list-style-type: none"> <li>• <u>Investments</u></li> <li>• <u>Claims management</u></li> <li>• <u>Reinsurance</u></li> <li>• <u>Actuarial function</u></li> </ul>	
<u>ICP 9</u>	<u>Group-wide risk assessment and inspections</u>	<u>Section 1, Part I</u> <u>Exhibit AA – Summary Review Memorandum</u>
<u>ICP 23</u>	<u>Determination of an IAIG and the Head of the IAIG</u>	<u>Section 1, Part I</u>

While the considerations and procedures outlined in the chart above are applicable to insurance groups identified as IAIGs (see state adoption of Model #440 Section 7.1), similar procedures applicable under the state's adoption of Model #440 Section 6 may also be appropriate for use in the supervision of other large insurance groups that do not meet the IAIG criteria. In assessing any such application, state insurance regulators must not exceed their legal authority and any supervisory measures should be risk-based and proportionate to the size and nature of the group.

ComFrame is to be applied flexibly and proportionately and therefore not every additional area of IAIG supervision will apply to each IAIG or will apply in the same way or to the same extent. Group-wide supervisors have the flexibility to tailor implementation of supervisory requirements and application of insurance supervision. ComFrame is not a one-size-fits-all approach to IAIG supervision as the goal is to achieve the outcomes set forth in ComFrame. IAIGs have different models of governance (e.g., more centralized or more decentralized). ComFrame does not favor any particular governance model and is intended to apply to all models. The organization of an IAIG can be structured in various ways as long as the intended outcomes are achieved. Proportionate application, which is called for in IAIS guidance, involves using a variety of supervisory techniques and practices tailored to the insurer. The techniques and practices applied should not go beyond what is necessary in order to achieve the intended outcomes of the IAIS' Insurance Core Principles and ComFrame.

Additional guidance and discussion regarding the state insurance department's supervision of IAIGs, including procedures for identifying IAIGs, identifying the scope and Head of the IAIG, determining the group-wide supervisor, the applicable roles and responsibilities, and authority related to the supervision review process can be found in the *Financial Analysis Handbook*.

### III. GENERAL EXAMINATION CONSIDERATIONS

This section covers procedures and considerations that are important when conducting financial condition examinations. The discussion here is divided as follows:

- A. General Information Technology Review
- B. Materiality
- C. Examination Sampling
- D. Business Continuity
- E. Using the Work of a Specialist
- F. Outsourcing of Critical Functions
- G. Use of Independent Contractors on Multi-State Examinations
- H. Considerations for Insurers in Run-Off
- I. Considerations for Potentially Troubled Insurance Companies
- J. Comments and Grievance Procedures Regarding Compliance with Examination Standards

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#### **F. Outsourcing of Critical Functions**

The examiner is faced with additional challenges when the insurer under examination outsources critical business functions to third-parties. It is the responsibility of management to determine whether processes which have been outsourced are being effectively and efficiently performed and controlled. This oversight may be performed through a number of methods including performing site visits to the third-party or through a review of SSAE 18 work that has been performed. In some cases, performance of site visits may even be mandated by state law. However, regardless of where the business process occurs or who performs it, the examination must conclude whether financial solvency risks to the insurer have been effectively mitigated. Therefore, if the insurer has failed to determine whether a significant outsourced business process is functioning appropriately, the examiner may have to perform testing of the outsourced functions to ensure that all material risks relating to the business process have been appropriately mitigated.

When conducting an examination of insurers that are part of a holding company group, including Internationally Active Insurance Groups (IAIGs), the exam team should evaluate whether appropriate due diligence has been performed prior to entering new material outsourcing agreements. The exam team should also take steps to determine the extent to which management at the applicable level (e.g., Head of the IAIG, ultimate parent company level, insurance holding company level, legal entity level, etc.) is able to provide ongoing risk assessment and oversight of outsourced functions and any contingency plans for emergencies and service disruptions.

The guidance below provides examiners additional information about the outsourcing of critical functions a typical insurance company may utilize. The guidance does not create additional requirements for insurers to comply with beyond what is included in state law, but may assist in outlining existing requirements that may be included in state law and should be used by examiners to assess the appropriateness of the company's outsourced functions. Within the guidance, references to relevant NAIC Model Laws have been included to provide examiners with guidance as to whether compliance in certain areas is required by law. To assist in determining whether an individual state has adopted the provisions contained within the referenced NAIC models, examiners may want to review the state pages provided within the NAIC's *Model Laws, Regulations and Guidelines* publication to understand related legislative or regulatory activity undertaken in their state.

## XI. REVIEWING AND UTILIZING THE RESULTS OF AN OWN RISK AND SOLVENCY ASSESSMENT

This section of the Handbook provides general guidance for use in reviewing, assessing and utilizing the results of an insurer's confidential Own Risk and Solvency Assessment (ORSA) in conducting risk-focused examinations. Therefore, this guidance may be used in support of the risk management assessments outlined in other sections of the Handbook (e.g., Phase 1, Part Two: Understanding the Corporate Governance Structure, Exhibit M – Understanding the Corporate Governance Structure) at the discretion of Lead State examiners.

- A Background Information
- B General Summary of Guidance for Each Section
- C Review of Background Information
- D Review of Section I – Description of the Insurer's Risk Management Framework
- E Review of Section II – Insurer's Assessment of Risk Exposure
- F Review of Section III – Group Assessment of Risk Capital
- G ORSA Review Documentation
- H Utilization of ORSA Results in the Remaining Phases of the Examination

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### 2. Risk Identification and Prioritization

The ORSA Guidance Manual defines this as key to the insurer, and responsibility for this activity should be clear. The risk management function is responsible for ensuring the processes are appropriate and functioning properly, and that key risks of the insurer are identified, prioritized and clearly presented. Therefore, an approach for risk identification and prioritization may be to have a process in place that identifies risk and prioritizes such risks in a way that potential reasonably foreseeable and relevant material risks are addressed in the framework. Key considerations and possible test procedures for use in reviewing and assessing risk identification and prioritization might include, but are not limited to:

Consideration	Description	Possible Test Procedure(s)
Resources	The insurer/group utilizes appropriate resources and tools (e.g., questionnaires, external risk listings, brainstorming meetings, regular calls, etc.) to assist in the risk identification process that are appropriate for its nature, size and structure.	<ul style="list-style-type: none"> <li>Obtain and review information and tools associated with the risk identification and prioritization process for appropriateness.</li> <li>Determine whether appropriate external sources have been used to assist in risk identification (e.g., rating agency information, emerging risk listings, competitor 10K filings, etc.) where applicable.</li> <li>Obtain and review lists of key risks (or risk register) at different dates to identify which risks have been added/removed to understand and assess the process.</li> </ul>
Stakeholder Involvement	All key stakeholders—i.e., directors, officers, senior management, business unit leaders, risk owners, etc.—are involved in risk identification and prioritization at an appropriate level.	<ul style="list-style-type: none"> <li>Interview select process owners/business unit leaders to verify their role in risk identification and prioritization.</li> <li>Interview risk management staff to understand and evaluate how risks are identified and aggregated across the insurer.</li> </ul>
Prioritization Factors	Appropriate factors and considerations are utilized to assess and prioritize risks (e.g., likelihood of occurrence, magnitude of impact, controllability, speed of onset, etc.).	<ul style="list-style-type: none"> <li>Assess the insurer's process and scale by which it prioritizes the key risks identified.</li> <li>Review the approach for, and results of, the insurer's likelihood, severity and speed of onset risk assessments, if applicable.</li> </ul>
Process Output	Risk registers, key risk listings, and risk ratings are maintained, reviewed and updated on a regular basis.	<ul style="list-style-type: none"> <li>Obtain and review a current copy of the insurer's risk register.</li> <li>Verify that the insurer's risk register is updated/reviewed on a regular basis by requesting copies at various dates.</li> </ul>

## FINANCIAL CONDITION EXAMINERS HANDBOOK

Emerging Risks	<p>The insurer has developed and maintained a formalized process for the identification and tracking of emerging risks.</p> <ul style="list-style-type: none"> <li>Obtain and review tools and reports utilized to identify and evaluate emerging risks to determine whether appropriate stakeholders and resources are utilized in this process.</li> </ul>
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### **Review of Appendix C – IAIG Risk Management Assessment Considerations (if applicable)**

~~The ORSA Summary Report is expected to be filed at the Head of the IAIG and should describe the risk management strategy and framework for the Head of the IAIG and legal entities within the IAIG. While the considerations provided throughout this section are generally applicable to all insurers/insurance groups filing an ORSA Summary Report, there are additional risk management assessment considerations that apply to U.S. based groups identified as Internationally Active Insurance Groups (IAIGs). The ORSA Summary Report is expected to be filed at the Head of the IAIG and should describe the risk management strategy and framework for the Head of the IAIG and legal entities within the IAIG; however, examiners must not exceed their legal authority and any supervisory measures should be risk-based and proportionate to the size and nature of the group. Therefore, the group-wide supervisor may need to conduct certain assessments at the head of the IAIG or level at which the group manages its aggregated risks to ensure that group-wide considerations are appropriately evaluated and verified through examination procedures, if not already addressed above.~~

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<b>Topics/Considerations</b>	<b>Possible Test Procedure(s)</b>
<p>The group-wide risk management strategy and framework encompasses the levels of the Head of the IAIG and legal entities within the IAIG, promotes a sound risk culture, and covers:</p> <ul style="list-style-type: none"> <li>diversity and geographical reach of activities;</li> <li>nature and degree of risks in entities/business lines;</li> <li>aggregation of risks across entities;</li> <li>interconnectedness of entities; level of sophistication and functionality of IT/reporting systems at the group level; and</li> <li>applicable laws and regulations</li> </ul>	<ul style="list-style-type: none"> <li>Review the risk dashboard used by legal entities to report risk exposures to the group to ensure that material exposures (including legal and regulatory exposures, when applicable) are incorporated into the group exposures.</li> <li>Review how the group manages aggregated exposures against group risk limits and appetite, including those arising from intra-group transactions.</li> <li>In conjunction with the IT Review performed in Phase 1 of the exam, consider the ability of the IT/reporting systems to collect risk data from legal entities and aggregate at the group level.</li> </ul>
<p>The group-wide risk management strategy is approved by the IAIG Board and implemented at the group-wide level; with regular risk management reporting provided to the IAIG Board or one of its committees</p>	<ul style="list-style-type: none"> <li>Review meeting minutes and packets to determine whether group-wide risk management strategy is evaluated and approved by the IAIG Board.</li> <li>Review the frequency and content of the reporting packet submitted to the IAIG Board or one of its committees.</li> </ul>
<p>The risk management function, the actuarial function and the internal audit function are involved in the risk management of the IAIG.</p>	<ul style="list-style-type: none"> <li>Obtain and review a listing of internal audit reports to determine active and independent involvement in the risk management function and take additional steps (i.e., conduct interviews, review internal audit reports, etc.), as deemed necessary to verify.</li> <li>Obtain an understanding of and evaluate the role of the actuarial function in the risk management of the IAIG including quantification of risk exposure and capital needs by conducting interviews, reviewing of actuarial reports, etc.</li> </ul>
<p>The group-wide risk management function coordinates and promotes consistent implementation of risk management practices at the group and legal entity level, with any material differences in practices being clearly documented and explained.</p>	<ul style="list-style-type: none"> <li>Review the group's risk management policy documentation and correspondence between the group and legal entity risk management functions.</li> </ul>

	<ul style="list-style-type: none"> <li>Review the organization chart of the group's risk management function to identify reporting relationships between the group and legal entities.</li> <li>Interview individuals responsible for risk management at different levels in the organization to verify application of the group's risk management policy and identify areas of practice departing from the policy.</li> </ul>
The group-wide risk management function is adequately independent from risk-taking activities.	<ul style="list-style-type: none"> <li>Review the organization chart of the group's risk management function and/or conduct interviews to identify reporting relationships and ensure staff are adequately independent from risk-taking and other operational activities.</li> </ul>
<p>The group-wide risk management framework is reviewed to ensure that existing and emerging risks as well as change in structure and business strategy are taken into account.</p> <ul style="list-style-type: none"> <li>Internal review <del>required</del> annually.</li> <li>Independent review <del>required</del> once every three years. (Note: The independent review may be carried out by an internal or external body as long as the reviewer is independent and not responsible for, nor actively involved in, the groupwide ERM framework)</li> </ul>	<ul style="list-style-type: none"> <li>Obtain and review board/committee minutes to verify ongoing review and approval of the group-wide risk management framework on an annual basis.</li> <li>Obtain and review documentation of modifications to the risk management framework to ensure changes are adequately supported and made in a timely manner.</li> <li>Obtain and review support of third-party/independent validation of the risk management framework to determine whether it is subject to periodic review, at least once every three years.</li> </ul>
<p>IAIG's risk management framework and ORSA adequately incorporate the following:</p> <ul style="list-style-type: none"> <li>cross-border risk exposures</li> <li>economic capital model</li> <li>fungibility of capital</li> <li>stress and reverse stress testing</li> <li>counterparty exposures</li> <li>liquidity risk exposures and contingency funding plans</li> <li>summary of recovery plan options</li> </ul>	<ul style="list-style-type: none"> <li>Follow up on specific recommendations made by the analyst</li> <li>Consider possible test procedures within section III above to assist in verifying appropriate elements are incorporated in the IAIG's risk management framework.</li> <li>Conduct exam procedures as deemed appropriate to evaluate the reasonableness of contingency funding and viability of the recovery plan options <del>presented</del> summarized in the ORSA.</li> <li>Verify that recovery plan options are <del>presented</del> summarized for all severe stress scenarios that pose a serious risk to the viability of the IAIG or any material part of its insurance business.</li> </ul>

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NAMIC-3



## FINANCIAL CONDITION EXAMINERS HANDBOOK

**PHASE 1 – UNDERSTAND THE COMPANY AND IDENTIFY KEY FUNCTIONAL ACTIVITIES TO BE REVIEWED***DETAIL ELIMINATED TO CONSERVE SPACE***B. Part 2: Understanding the Corporate Governance Structure**

This section's purpose is to assist the examiner in documenting the understanding and assessment of an insurer's board of directors and management and its corporate governance policies and practices, including its ERM function. A favorable overall assessment of governance does not, by itself, serve to reduce the scope or extent of examination procedures; rather, specific governance controls need to be assessed for their adequacy in managing specific risks, in conjunction with other controls designed to manage the same. See Exhibit M – Understanding the Corporate Governance Structure for additional guidance in understanding the corporate governance structure of the company. When completing this assessment, the examiner should utilize the Corporate Governance Annual Disclosure (CGAD), which is required to be filed with the Department of Insurance (DOI) annually in accordance with *Corporate Governance Annual Disclosure Model Act* (#305) and *Corporate Governance Annual Disclosure Model Regulation* (#306). The CGAD provides a narrative description of the insurer's or insurance group's corporate governance framework and structure and may enhance examination efficiencies when leveraged. Examiners should inquire of the financial analyst to gain an understanding of and leverage the analyst's work in assessing the company's corporate governance.

Holding Company Considerations

In conducting examinations of insurers that are part of a holding company group, including Internationally Active Insurance Groups (IAIGs), the work to gain an understanding and perform an assessment of corporate governance should focus on the level at which insurance operations are directly overseen (e.g., Head of the IAIG, ultimate parent company level, insurance holding company level, legal entity level, etc.). However, in certain areas it may be necessary to also review governance activities occurring at a level above or below the primary level of focus. Many critical aspects of governance usually occur at the holding company level, lead company, or service company within the corporate structure of the group. Furthermore, if the insurer under examination belongs to a holding company group that has been identified as an IAIG, group level governance practices must be evaluated. The guidance herein does not favor any particular governance model and is not intended to apply to all models; the organization of an IAIG can be structured in various ways. Because of these factors, the exam team should seek to coordinate the review and assessment of group corporate governance in accordance with the exam coordination framework and lead state approach outlined in Section 1 of this Handbook.

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Commented [NAIC2]: APCA-4 (see also Section 4 - Exhibit M)

*DETAIL ELIMINATED TO CONSERVE SPACE***Enterprise Risk Management**

One aspect of a company's group's corporate governance is enterprise risk management (ERM). The way a company group identifies, monitors, evaluates and responds to risks can be very important to the ongoing solvency of the company group. ERM is, therefore, an important area for an examiner to review during the course of the examination. Exhibit M – Understanding the Corporate Governance Structure contains a section with specific areas of consideration in reviewing the risk management function. For large companies subject to the requirements of the ORSA, including IAIGs, the summary report provided by the company may be used in the evaluation of risk management. Examiners should complete leverage the work completed by the department analyst, as well as consider the possible test procedures outlined in the ORSA Documentation Template located in Section 1, Part XI of this Handbook in conjunction with the review of the ORSA summary report evaluating the company's group's risk management framework.

## EXAMINATION REPOSITORY – CAPITAL AND SURPLUS

### Own Risk and Solvency Assessment (ORSA)

During the review of the ORSA filing (if applicable), the examiner may identify risks and controls that are relevant to be considered when creating the Capital and Surplus Key Activity Matrix. Additionally, examiners may perform test procedures related to the information contained within the ORSA filing that provides evidence regarding the sufficiency of an insurer's capital and surplus. Examiners are encouraged to leverage the information contained within the ORSA, and associated test procedures, when populating the Key Activity Matrix.

### Annual Statement Blank Line Items

Listed below are the corresponding Annual Statement line items that are related to the identified risks contained in this exam repository:

Capital Notes and Interest Thereon  
 Aggregate Write-ins for Special Surplus Funds  
 Common Capital Stock  
 Preferred Capital Stock  
 Aggregate Write-ins for Other than Special Surplus Funds  
 Surplus Notes  
 Gross Paid-in and Contributed Surplus  
 Unassigned Funds (Surplus)  
 Treasury Stock

### Relevant Statements of Statutory Accounting Principles (SSAPs)

All of the relevant SSAPs related to other liabilities and surplus, regardless of whether or not the corresponding risks are included within this exam repository, are listed below:

No. 41 Surplus Notes  
 No. 72 Surplus and Quasi-reorganizations

**† Note:** Items identified with this symbol may warrant additional procedures or consideration at the Head of the Internationally Active Insurance Group (IAIG) or level at which the group manages its aggregated risks. Where IAIGs have a decentralized business model, at least in regard to certain operations and management of related risks, examiners should consider evaluating those risks at the subgroup or legal entity level. Refer to Section 1, Part I for additional guidance for examinations of IAIGs.

**Commented [NAIC1]:** Note: Additional revisions to this repository are being developed as part of a separate workstream led by the Financial Examiners Handbook (E) Technical Group. These revisions may result in additional risks being identified as applicable to examinations of IAIGs.

**Commented [NAIC2]:** APCA-2

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
<b>Other Than Financial Reporting Risks</b>						
The insurer does not have access to sufficient capital to support its ongoing and future business needs. <sup>†</sup>  <b>Please Note:</b> Examiners should utilize information contained in the Own Risk and Solvency Assessment (ORSA) provided by insurers that are subject to this filing requirement.	ST	Other	CMT	<p>Management performs ongoing analysis of various sources of capital (e.g., issuing bonds, selling common stock, parent contributions, borrowing, etc.) to ensure the insurer maintains a current understanding of the options available.</p> <p>The board of directors (or committee thereof) reviews and approves the strategic capital management plan, including sources of capital, on an annual basis.</p>	<p>Review documentation describing the insurer's overall capital management strategy and the options available to raise capital.</p> <p><b>Please Note:</b> When the source of capital is from an affiliate, consider testing in conjunction with the Related Party Repository.</p> <p>Review the board of directors' (or committee thereof) meeting minutes for evidence of the Board's approval of the overall capital strategy plan and the various options available to raise capital, should the need arise.</p>	<p>Perform a review of management's available sources of capital and assess the feasibility of each option to confirm the insurer has access to sufficient capital, should the need arise.</p> <p><b>Please Note:</b> When the source of capital is from an affiliate, consider testing in conjunction with the Related Party Repository.</p>

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## EXAMINATION REPOSITORY - INVESTMENTS

### Annual Statement Blank Line Items

Listed below are the corresponding Annual Statement line items that are related to the identified risks contained in this examination repository:

Bonds  
 Stocks (Preferred and Common)  
 Mortgage Loans on Real Estate  
 Cash, Cash Equivalents and Short-Term Investments  
 Derivatives  
 Other Invested Assets  
 Securities Lending – Reinvested Collateral Assets

Other Annual Statement line items related to investments, whose risks are less common, have not been included in this examination repository. They include the following:

Real Estate  
 Aggregate Write-Ins for Invested Assets  
 Contract Loans  
 Receivables for Securities  
 Payable for Securities  
 Investment Income Due and Accrued (*P&C Companies*)  
 Drafts Outstanding  
 Unearned Investment Income (*Life Companies*)  
 Liability for Deposit-Type Contracts (*Life Companies*)  
 Miscellaneous Liabilities – Asset Valuation Reserve  
 Contract Liabilities Not Included Elsewhere – Interest Maintenance Reserve  
 Contract Liabilities Not Included Elsewhere – Surrender Values on Cancelled Contracts (*Life Companies*)

### Relevant Statements of Statutory Accounting Principles (SSAPs)

All of the relevant SSAPs related to the investment process, regardless of whether or not the corresponding risks are included within this examination repository, are listed below:

No. 2R Cash, Cash Equivalents, Drafts, and Short-Term Investments  
 No. 7 Asset Valuation Reserve and Interest Maintenance Reserve  
 No. 21R Other Admitted Assets  
 No. 23 Foreign Currency Transactions and Translations  
 No. 26R Bonds  
 No. 30R Unaffiliated Common Stock  
 No. 32R Preferred Stock  
 No. 34 Investment Income Due and Accrued  
 No. 37 Mortgage Loans  
 No. 38 Acquisition, Development and Construction Arrangements  
 No. 39 Reverse Mortgages  
 No. 40R Real Estate Investments  
 No. 41R Surplus Notes  
 No. 43R Loan-Backed and Structured Securities  
 No. 44 Capitalization of Interest  
 No. 48 Joint Ventures, Partnerships and Limited Liability Companies

- No. 49 Policy Loans
- No. 56 Separate Accounts
- No. 74 Insurance-Linked Securities Issued Through a Protected Cell
- No. 83 Mezzanine Real Estate Loans
- No. 86 Derivatives
- No. 90 Impairment or Disposal of Real Estate Investments
- No. 93 Low-Income Housing Tax Credit Property Investments
- No. 97 Investments in Subsidiary, Controlled and Affiliated Entities
- No. 103R Transfers and Servicing of Financial Assets and Extinguishments of Liabilities

† ~~Items~~ Risks identified with this symbol may warrant additional procedures or consideration at the Head of the Internationally Active Insurance Group (IAIG) or level at which the group manages its aggregated risks. Where IAIGs have a decentralized business model, at least in regard to certain operations and management of related risks, examiners should consider evaluating those risks at the subgroup or legal entity level. Refer to Section I, Part I for additional guidance for examinations of IAIGs.

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Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
<b>Other Than Financial Reporting Risks</b>						
The insurer's investment portfolio and strategy are not appropriately structured to support its ongoing business plan <sup>1</sup> .	MK CR	Other	AIPS LC	<p>The insurer has a governance structure that routinely challenges, approves and reviews its investment strategy and portfolio in conjunction with the risks facing the business. The insurer considers, current market conditions (including interest rates) and takes into account shifting markets and near-term expectations.</p> <p>The insurer has an investment strategy based on its tolerance for market risks (including market price volatility, securities lending and interest rate risks) with guidelines as to the quality, maturity/duration, expected rates of return, different investment structures and diversification of investments.</p> <p>The insurer has an investment strategy that <u>includes a counterparty risk appetite statement, if applicable, and outlines</u> asset allocation by asset type, credit quality, duration and liquidity, with acceptable ranges based on the different investments</p>	<p>Review the insurer's investment committee and governance structure related to the portfolio decisions. Consider level of expertise in relation to the complexity of the company's investment strategy, as appropriate.</p> <p>Review recent committee minutes for evidence of discussions related to future market expectations.</p> <p>Review the insurer's investment policy to determine if guidelines relating to the quality, maturity and diversification of investments in accordance with market risk factors have been included in the policy.</p> <p>Review how the insurer tracks performance of different asset classes, with a particular focus on market value volatility and losses/impairments.</p>	<p>Review recent performance and benchmark reports in comparison with the company's plan.</p> <p>Review the insurer's investment policy guidelines for appropriateness relating to market risks.</p> <p>Determine whether market risk management specific to high-risk investments is adequate by using an investment specialist. Use the I-Site+ insurer's Snapshot Investment Summary to identify high risk investments where the company's position is greater than average for its competitors in areas such as:</p> <ul style="list-style-type: none"> <li>• Bonds with call options and varied payment timing.</li> <li>• Foreign investments.</li> <li>• Hybrid capital securities.</li> <li>• Mezzanine loans.</li> <li>• Affiliated investments.</li> <li>• Residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), asset-backed securities</li> </ul>

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				<p>and their specific characteristics. Correlations across different assets are considered within the strategy.</p> <p>The insurer performs routine stress testing and/or scenario analysis that specifically takes into account recent and expected market value volatility by sector and industry in order to determine whether adjustments to the insurer's investment strategy are necessary.</p> <p>The insurer has its own process that is not solely dependent upon credit rating agencies to evaluate the credit worthiness of securities for investment purposes. The process is used prior to significant purchases and on an ongoing basis.</p> <p>The insurer's investment strategy considers the impact of, and market expectations for, climate change on different investments, and the investment policy includes guidelines that require</p>	<p>Review the insurer's most recent stress testing/scenario analysis testing documentation to determine the adequacy of the insurer's analysis. Ensure inclusion of complex and volatile assets in investment policy, director review, stress testing, and asset liability matching.</p> <p>Review the insurer's investment policy and processes to understand the inputs into such decisions and the extent to which it requires credit analysis and is not solely reliant on credit rating agencies. Obtain evidence of the insurer's process to research the quality of the investments.</p> <p>Review the company's investment strategy for consideration of climate change in different sections and asset classes.</p>	<p>(ABS) CO/collateralized loan obligation (CLO) or similar bond collateral types.</p> <ul style="list-style-type: none"> <li>Structured securities on negative watch.</li> </ul> <p>Perform stress testing/scenario analysis on the insurer's investment portfolio (by using an investment specialist if necessary) to identify potential solvency risks.</p> <p>Test the insurer's investments for compliance with its corporate strategy and investment policy guidelines.</p> <p>Consider use of an investment specialist to evaluate the company's exposure to climate change-related risk regarding its investment portfolio/strategy.</p>

Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				<p>diversification to protect against the impact of climate change.</p> <p><u>The insurer's/group's investment strategy establishes criteria for intra-group investments, when applicable, including:</u></p> <ul style="list-style-type: none"> <li><u>Liquidity</u></li> <li><u>Contagion or reputational risk</u></li> <li><u>Valuation uncertainty</u></li> <li><u>Impact on capital resources</u></li> <li><u>Nature of the group (or IAIG) business</u></li> <li><u>Financial condition of the legal entities within the group.</u></li> </ul>		
The board of directors (or committee thereof) and management do not effectively implement/enforce the investment policy/strategy <sup>1</sup> .	OP ST	Other	AIPS	<p>The board of directors (or committee thereof) reviews and approves the insurer's investment policy on an annual basis with consideration of changing market conditions.</p> <p>The insurer monitors investments purchased, those sold and what the insurer holds. It also monitors compliance with the investment strategy that</p>	<p>Inspect documentation indicating the board of directors' (or committee thereof) approval of the insurer's investment policy on an annual basis. Consider the level of expertise in relation to the complexity of the company's investment strategy, as appropriate.</p> <p>Obtain a copy of the report that is used by the insurer to report investment policy compliance to the board of directors (or committee thereof), and verify the</p>	<p>Review written policy for reasonableness.</p> <p>Obtain the underlying reports used by the board of directors (or committee thereof) to review the investment strategy results. Discuss with members of the board of directors (or committee thereof) to determine their level of involvement in the monitoring of the investment strategy/risks. Determine if there is sufficient focus on all relevant investment risks.</p>



Identified Risk	Branded Risk	Exam Asrt.	Critical Risk	Possible Controls	Possible Test of Controls	Possible Detail Tests
				<p>has been established by the board of directors (or committee thereof). This monitoring can be performed by senior management, an investment advisory board or internal auditors and is reported to the board of directors (or committee thereof).</p> <p>The board of directors (or committee thereof) receives a quarterly summary of the investment activity over the past quarter and reviews an analysis of current year vs. prior year results and budget to actual results, noting the impact of activity on the overall profile of the investment profile. This should also take into account scheduled and unscheduled repayments.</p>	<p>board's review of the investment activity.</p> <p>Verify that a discussion of investments and the performance took place at the quarterly board of directors (or committee thereof) meeting by reviewing the minutes.</p>	<p>Verify the underlying data included in the investment reports to senior management and the board of directors (or committee thereof).</p> <p>Perform an analytic comparing the investment characteristics of the portfolio with the written investment strategy.</p> <p>Determine whether the investment strategy is being met by the insurer.</p> <p>Perform an analytical review of the insurer's diversification of investments.</p>

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## EXAMINATION REPOSITORY – REINSURANCE (ASSUMING INSURER)

### Annual Statement Blank Line Items

Listed below are the corresponding Annual Statement line items that are related to the identified risks contained in this exam repository:

Reinsurance Payable on Paid Loss and Loss Adjustment Expenses  
 Funds Held by the Company Under Reinsurance Treaties  
 Contract Liabilities Not Included Elsewhere – Other Amounts Payable on Reinsurance  
 Commissions and Expense Allowances Payable on Reinsurance Assumed

### Relevant Statements of Statutory Accounting Principles (SSAPs)

All of the relevant SSAPs related to the reinsurance process, regardless of whether or not the corresponding risks are included within this exam repository, are listed below:

No. 5R Liabilities, Contingencies and Impairments of Assets – Revised  
 No. 6 Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due from Agents and Brokers  
 No. 25 Affiliates and Other Related Parties  
 No. 61R Life, Deposit-Type and Accident and Health Reinsurance – Revised  
 No. 62R Property and Casualty Reinsurance – Revised  
 No. 63 Underwriting Pools  
 No. 64 Offsetting and Netting of Assets and Liabilities  
 No. 65 Property and Casualty Contracts

†Note: Risks within identified with this key activity symbol may warrant additional procedures or consideration at the Head of the Internationally Active Insurance Group (IAIG) or level at which the group manages its aggregated risks. Where IAIGs have a decentralized business model, at least in regard to certain operations and management of related risks, examiners should consider evaluating those risks at the subgroup or legal entity level. Refer to Section 1, Part I for additional guidance for examinations of IAIGs.

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*NOTE: ALL RISKS IN THIS REPOSITORY ARE PROPOSED TO HAVE † SYMBOL*

## EXAMINATION REPOSITORY – REINSURANCE (CEDING INSURER)

### Annual Statement Blank Line Items

Listed below are the corresponding Annual Statement line items that are related to the identified risks contained in this exam repository:

Amounts Recoverable from Reinsurers  
 Funds Held by or Deposited with Reinsured Companies  
 Other Amounts Receivable Under Reinsurance Contracts  
 Ceded Reinsurance Premiums Payable (Net of Ceding Commissions)  
 Funds Held by Company Under Reinsurance Treaties (*P&C Companies*)  
 Funds Held Under Reinsurance Treaties with Unauthorized Reinsurers (*Life Companies*)  
 Provision for Reinsurance  
 Contract Liabilities Not Included Elsewhere – Other Amounts Payable on Reinsurance  
 Miscellaneous Liabilities – Reinsurance in Unauthorized Companies (*Life Companies*)  
 Funds Held Under Coinsurance (*Life Companies*)

### Relevant Statements of Statutory Accounting Principles (SSAPs)

All of the relevant SSAPs related to the reinsurance process, regardless of whether or not the corresponding risks are included within this exam repository, are listed below:

No. 5R Liabilities, Contingencies and Impairments of Assets – Revised  
 No. 25 Affiliates and Other Related Parties  
 No. 61R Life, Deposit-Type and Accident and Health Reinsurance – Revised (*Health/Life Companies*)  
 No. 62R Property and Casualty Reinsurance – Revised (*P&C Companies*)  
 No. 63 Underwriting Pools (*Health/Life Companies*)  
 No. 64 Offsetting and Netting of Assets and Liabilities  
 No. 65 Property and Casualty Contracts (*P&C Companies*)

†Note: Risks ~~within~~ identified with this ~~key activity~~ symbol may warrant additional procedures or consideration at the Head of the Internationally Active Insurance Group (IAIG) or level at which the group manages its aggregated risks. Where IAIGs have a decentralized business model, at least in regard to certain operations and management of related risks, examiners should consider evaluating those risks at the subgroup or legal entity level. Refer to Section 1, Part I for additional guidance for examinations of IAIGs.

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## EXAMINATION REPOSITORY – RESERVES/CLAIMS HANDLING (HEALTH)

### Annual Statement Blank Line Items

Listed below are the corresponding Annual Statement line items that are related to the identified risks contained in this exam repository:

Claims Unpaid (Less Reinsurance Ceded)  
 Accrued Medical Incentive Pool and Bonus Payments  
 Unpaid Claims Adjustment Expenses  
 Aggregate Health Policy Reserves  
 Aggregate Life Policy Reserves  
 Property/Casualty Unearned Premium Reserves  
 Aggregate Health Claim Reserves

### Relevant Statements of Statutory Accounting Principles (SSAPs)

The relevant SSAPs related to the health insurance reserving process, regardless of whether or not the corresponding risks are included within this exam repository, are listed below:

No. 5R Liabilities, Contingencies and Impairments of Assets – Revised  
 No. 50 Classifications of Insurance or Managed Care Contracts  
 No. 54R Individual and Group Accident and Health Contracts  
 No. 55 Unpaid Claims, Losses and Loss Adjustment Expenses  
 No. 61R Life, Deposit-Type and Accident and Health Reinsurance – Revised  
 No. 66 Retrospectively Rated Contracts  
 No. 107 Risk-Sharing Provisions of the Affordable Care Act

†Note: Risks within identified with this key activity symbol may warrant additional procedures or consideration at the Head of the Internationally Active Insurance Group (IAIG) or level at which the group manages its aggregated risks. Where IAIGs have a decentralized business model, at least in regard to certain operations and management of related risks, examiners should consider evaluating those risks at the subgroup or legal entity level. Refer to Section I, Part I for additional guidance for examinations of IAIGs.

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*NOTE: ALL RISKS IN THIS REPOSITORY ARE PROPOSED TO HAVE † SYMBOL*

## EXAMINATION REPOSITORY – RESERVES/CLAIMS HANDLING (LIFE)

### Annual Statement Blank Line Items

Listed below are the corresponding Annual Statement line items that are related to the identified risks contained in this exam repository:

Aggregate Reserve for Life Contracts  
 Aggregate Reserve for Accident and Health Contracts  
 Liability for Deposit-Type Contracts  
 Contract Claims

### Relevant Statements of Statutory Accounting Principles (SSAPs)

All of the relevant SSAPs related to the life insurance reserving process, regardless of whether or not the corresponding risks are included within this exam repository, are listed below:

No. 5R Liabilities, Contingencies and Impairments of Assets – Revised  
 No. 50 Classifications of Insurance or Managed Care Contracts  
 No. 51R Life Contracts  
 No. 52 Deposit-Type Contracts  
 No. 54R Individual and Group Accident and Health Contracts  
 No. 55 Unpaid Claims, Losses and Loss Adjustment Expenses  
 No. 61R Life, Deposit-Type and Accident and Health Reinsurance – Revised  
 No. 63 Underwriting Pools

†Note: Risks with this key activity symbol may warrant additional procedures or consideration at the Head of the Internationally Active Insurance Group (IAIG) or level at which the group manages its aggregated risks. Where IAIGs have a decentralized business model, at least in regard to certain operations and management of related risks, examiners should consider evaluating those risks at the subgroup or legal entity level. Refer to Section 1, Part I for additional guidance for examinations of IAIGs.

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*NOTE: ALL RISKS IN THIS REPOSITORY ARE PROPOSED TO HAVE † SYMBOL*

## EXAMINATION REPOSITORY – RESERVES/CLAIMS HANDLING (P&C)

### Annual Statement Blank Line Items

Listed below are the corresponding Annual Statement line items that are related to the identified risks contained in this exam repository:

Losses  
 Loss Adjustment Expenses  
 Ceded Reinsurance Case Loss and Loss Adjustment Expense Reserves  
 Supplemental Reserve (*Title Companies*)

### Relevant Statements of Statutory Accounting Principles (SSAPs)

All of the relevant SSAPs related to the property and casualty insurance reserving process, regardless of whether or not the corresponding risks are included within this exam repository, are listed below:

No. 5R Liabilities, Contingencies and Impairments of Assets – Revised  
 No. 53 Property and Casualty Contracts – Premiums (*P&C Companies*)  
 No. 54R Individual and Group Accident and Health Contracts  
 No. 55 Unpaid Claims, Losses and Loss Adjustment Expenses  
 No. 57 Title Insurance  
 No. 62R Property and Casualty Reinsurance – Revised  
 No. 63 Underwriting Pools  
 No. 65 Property and Casualty Contracts  
 No. 70 Allocation of Expenses

†Note: Risks within identified with this key activity symbol may warrant additional procedures or consideration at the Head of the Internationally Active Insurance Group (IAIG) or level at which the group manages its aggregated risks. Where IAIGs have a decentralized business model, at least in regard to certain operations and management of related risks, examiners should consider evaluating those risks at the subgroup or legal entity level. Refer to Section 1, Part I for additional guidance for examinations of IAIGs.

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NOTE: ALL RISKS IN THIS REPOSITORY ARE PROPOSED TO HAVE † SYMBOL

## EXAMINATION REPOSITORY – UNDERWRITING

### Annual Statement Blank Line Items

There are no Annual Statement line items directly related to the underwriting process; however, policies underwritten and rate calculations may impact line items associated with areas such as premiums and reserves.

### Relevant Statements of Statutory Accounting Principles (SSAPs)

All of the relevant SSAPs related to the underwriting process, regardless of whether or not the corresponding risks are included within this exam repository, are listed below:

- No. 6      Uncollected Premium Balances, Bills Receivable for Premiums, and Amounts Due from Agents and Brokers (*All Lines*)
- No. 51R   Life Contracts (*Life Companies*)
- No. 53      Property and Casualty Contracts – Premiums (*P&C Companies*)
- No. 54R   Individual and Group Accident and Health Contracts (*Health Companies*)
- No. 65      Property and Casualty Contracts (*P&C Companies*)

†Note: Risks within identified this key activity symbol may warrant additional procedures or consideration at the Head of the Internationally Active Insurance Group (IAIG) or level at which the group manages its aggregated risks. Where IAIGs have a decentralized business model, at least in regard to certain operations and management of related risks, examiners should consider evaluating those risks at the subgroup or legal entity level. Refer to Section 1, Part I for additional guidance for examinations of IAIGs.

*NOTE: ALL RISKS IN THIS REPOSITORY ARE PROPOSED TO HAVE † SYMBOL*

EXHIBIT E  
AUDIT REVIEW PROCEDURES

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Internal Auditor Workpaper and Report Review

14. Obtain and document an understanding of the internal audit department’s role in the internal control structure, including recent changes in the internal audit department, such as personnel, approach and reporting relationship changes.
- a. Determine that the board of directors and senior management are restricted from delegating their responsibilities for establishing, maintaining and operating effective audit activities (e.g., establishment of an annual audit plan that is reviewed by the audit committee).
- b. Determine that audit activities are performed by an independent and qualified staff that is objective in evaluating the insurer’s financial reporting risks and internal controls, including management information systems. In order to be independent, Internal Audit members should not have other operational, risk management or accounting responsibilities (unless exempt in accordance with NAIC Model #205).
15. If the internal audit department is deemed independent and qualified, obtain documentation of all the internal audits conducted by the internal audit department since the previous examination. Perform a high-level review of selected internal audit reports to determine whether:
- a. Audit activities help maintain or improve the effectiveness of insurer risk management processes, controls and corporate governance.
- b. Audit activities provide reasonable assurance about the accuracy and timeliness of recorded transactions and the accuracy and completeness of financial reports.
- c. Audit activities provide assistance, guidance and/or suggestions where needed.
16. After review of internal audit reports, if the examiner has determined that the internal audit department is competent, the internal audit department may be used for preparing examination workpapers.

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## EXHIBIT M

### UNDERSTANDING THE CORPORATE GOVERNANCE STRUCTURE

#### Overview

The purpose of this exhibit is to assist the examiner in documenting the understanding and assessment of an insurer's corporate governance policies and practices, including its ERM function. As insurers are expected to demonstrate different corporate governance practices in accordance with the nature and extent of their operations, examiners should not expect the practices of each individual insurer to specifically match the guidance provided in this exhibit. Therefore, the focus of an examination team's considerations in this area should be to determine whether the practices implemented by the insurer are reasonable and effective.

The examination team should first attempt to utilize information obtained through Exhibit B – Examination Planning Questionnaire, Exhibit Y – Examination Interviews and other planning sources (including information provided to the financial analyst and any other information available to the examiner) before requesting any additional information that may be necessary to gain an understanding and perform an assessment of corporate governance. A favorable overall assessment of governance does not, by itself, serve to reduce the scope or extent of examination procedures; rather, specific governance controls need to be assessed for their adequacy of the management of specific risks, in conjunction with other controls designed to manage the same.

#### Holding Company Considerations

In conducting examinations of insurers that are part of a holding company group, including Internationally Active Insurance Groups (IAIGs), as defined in Model #440, the work to gain an understanding and perform an assessment of corporate governance should focus on the level at which insurance operations are directly overseen (e.g., Head of the IAIG, ultimate parent company level, insurance holding company level, legal entity level, etc.). However, in certain areas, it may be necessary to also review governance activities occurring at a level above or below the primary level of focus. Many critical aspects of governance usually occur at the holding company level. Furthermore, if the insurer under examination belongs to a holding company group that has been identified as an IAIG, group level governance practices must be evaluated. Because of these factors, the exam team should seek to coordinate the review and assessment of group corporate governance in accordance with the exam coordination framework and lead state approach outlined in Section 1 of this Handbook.

Where possible, in a coordinated examination, the lead state's work on the corporate governance assessment should be utilized to prevent duplication of effort and to leverage examination efficiencies. ~~Additionally, the examiner should utilize the Corporate Governance Annual Disclosure (CGAD), which is required to be filed with the Department of Insurance (DOI) annually in accordance with the Corporate Governance Annual Disclosure Model Act (#305) and Corporate Governance Annual Disclosure Model Regulation (#306). The CGAD provides a narrative description of the insurer's or insurance group's corporate governance framework and structure and may enhance examination efficiencies when leveraged. Examiners should also ensure they understand/leverage the work performed by the lead state's analyst, including the Holding Company Analysis work performed by the lead state's financial analyst and, as well as the lead state's review of the ORSA filing, and Corporate Governance Annual Disclosure (CGAD).~~

The CGAD is required to be filed with the Department of Insurance (DOI) annually in accordance with the Corporate Governance Annual Disclosure Model Act (#305) and Corporate Governance Annual Disclosure Model Regulation (#306). The CGAD provides a narrative description of the corporate governance framework and structure for insurers and insurance groups, including IAIGs, and may enhance examination efficiencies when leveraged to understand and assess the company's corporate governance, as well as the filings noted above.

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## FINANCIAL CONDITION EXAMINERS HANDBOOK

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F. CONSIDERATIONS FOR EXAMINATIONS OF INTERNATIONALLY ACTIVE INSURANCE GROUPS

This section identifies additional corporate governance requirements applicable to Internationally Active Insurance Groups (IAIGs). The guidance herein does not favor any particular governance model and is not intended to apply to all models; the organization of an IAIG can be structured in various ways. As noted above, when conducting coordinated group exams, the level at which the governance is evaluated may vary. However, if the holding company group under examination has been identified as an IAIG, governance practices must be evaluated at the Head of the IAIG, lead company, or service company within the corporate structure of the group, to ensure that appropriate policies and processes are in place to promote effective oversight of the group-wide operations and a sound risk culture. For additional guidance related to the examination of IAIGs, refer to Section 1, Part I in this Handbook.

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1. IAIG Board of Directors

- a. Do board members (individually and collectively) and other key individuals (senior management, key persons in control functions, etc.) have the necessary competence to fulfill their role?
- b. Does the board of directors have access to information and processes in place to understand the group's corporate governance framework and corporate structure; activities of the legal entities and associated risks; supervisory regimes applicable to the IAIG; issues that arise from cross-border business and international transactions; and the risk management, compliance, audit, actuarial and related areas of the group?
- c. Has the board of directors developed an adequate conflict of interest policy for officers, management and key personnel that includes processes to identify and avoid, or manage, conflicts of interest that may adversely affect the IAIG as a whole or any of its legal entities?
- d. Does the board of directors provide appropriate oversight of the group's internal control and internal audit functions?
- e. Does the board of directors receive relevant information regarding the group's actuarial function annually on the following topics:
  - i. Prospective actuarial analysis of the financial condition of the IAIG
  - ii. the reliability and sufficiency of technical provisions (reserves)
  - iii. the adequacy of reinsurance credit for technical provisions (reserves)
  - iv. consideration of non-insurance legal entities and nonregulated legal entities, if applicable

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## SECTION 4 – EXAMINATION EXHIBITS

Exhibit Y

## EXHIBIT Y

### EXAMINATION INTERVIEWS

#### Overview

Interviews are a useful examination tool to gather information about key activities, risks and risk mitigation strategies. Employees can also provide information on fraudulent activity within the company. It is critical for the examination team to understand and leverage the company's risk management program; i.e., how the company identifies, controls, monitors, evaluates and responds to its risks. The discipline and structure of risk management programs vary dramatically from company to company. Interviews should be performed in the early stages of the examination so that regulators can adjust their procedures accordingly. An examiner can perform alternate, additional or fewer detail and control tests as a result of interviews with the company.

Interviews should be conducted with key members within management of the company, as well as members of the board of directors, audit committee, internal/external auditors and any other employees deemed necessary. These interviews can be used at the beginning of the examination or at any time during the examination, as necessary. In order to conduct a productive interview, the examiner should have a basic understanding of the company prior to commencing the interview process. When possible, the examiner should meet with the department analyst prior to scheduling interviews with company personnel to assist in gaining this basic understanding. Examiners should continue to tailor each interview as information is learned about the company throughout the planning process.

Examiners should consider the size and complexity of the organization in determining which individuals to interview. The interview process is a key step in the "top-down" approach, beginning with senior management and then drilling down through the various levels of management to obtain a thorough understanding of the organization to assist in scoping the examination. In order to select the individuals to interview, the examiners should obtain an organizational chart from the company and compile a list of potential interviewees. Interviews of board members and senior company management should be conducted by examiners who possess the appropriate background and training. The examiner should also carefully consider the order of interviews, as information gleaned from certain "C"-level individuals can inform subsequent interviews. For example, the Chief Risk Officer (CRO) is uniquely positioned to have an awareness of the various risks facing the company from multiple perspectives. The information obtained through an interview with the CRO can help the examiner have a greater understanding of the key risk areas of the company, which can then be used to further customize subsequent interviews, as well as determine which additional members of management should be interviewed. While it can be challenging to coordinate the interview schedule with company personnel at this level, examiners are encouraged to attempt interviewing the CRO as early in the interview process as possible.

If the company under examination belongs to a holding company group that has been identified as an Internationally Active Insurance Group (IAIG), as defined in Model #440, the group-wide supervisor should consider conducting additional interviews at the Head of the IAIG, including key members of management and the board of directors. Such interviews would assist the group-wide supervisor in determining the consistency of governance practices across the IAIG as well as whether the group's risk management framework encompasses the Head of the IAIG and legal entities within the IAIG.

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Interviews should be performed in person, if possible. This allows the interviewer to receive both verbal and nonverbal communication. The interviews should be kept confidential when possible; however, if a significant fraud or other pertinent issue was discovered through the interviews, the regulator has a duty to report the conflict to the appropriate officials.

The examiner should conduct the interview in a location where both parties are free to talk openly. The examiner should ask relevant questions, with the most general questions posed first as building blocks for additional conversation. The examiner may want to consider alternating between open-ended questions (e.g., "Explain to me how this process works.") vs. closed-ended questions (e.g., "How many claim processors do you have in your department?") to obtain the information. Open-ended questions are generally better suited for explanation and processes, while closed-ended

Exhibit Y

FINANCIAL CONDITION EXAMINERS HANDBOOK

questions are better suited to obtain concise information. The examiner should be prepared, listen carefully and focus on the speaker's entire message, as well as the non-verbal cues expressed during the interview process.

Significant risks and concerns identified through completion of the examination interviews should be adequately addressed within the examination workpapers. As such, all significant risks identified by the examiner during the interview process should be recorded in a central location for tracking purposes, such as Exhibit CC – Issue/Risk Tracking Template or a similar document.

Because information obtained from the interview serves as important evidence in the examination process, the examiner should develop techniques to plan, conduct, document and consider interview information. Although interviews play a key role in gaining useful insight into company operations, interviews alone are not sufficient exam evidence and should be corroborated with other exam documentation to evaluate the accuracy of the information.

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## SECTION 4 – EXAMINATION EXHIBITS

Exhibit Y

**Sample Interview Questions for an Internal Auditor**Experience and Background

- How has your experience and background prepared you to serve as an internal auditor for this company?

Duties and Responsibilities

- Briefly describe your duties and responsibilities.
- How is your performance evaluated? Is it based on the performance of the company?
- How much of your department's time is allocated to the NAIC *Annual Financial Reporting Model Regulation* (Model Audit Rule) process, business process reviews, compliance?
- Do you perform any ~~management~~ operational, risk management or accounting functions?
- What is the role of the internal audit function in verifying the effectiveness risk management processes?
- How are audit findings communicated to the company and the board/audit committee?
- Please describe any special projects and/or key initiatives.

Reporting Structure

- Describe the reporting structure of the company, including to whom you report, as well as who reports to you.
- Describe your interaction with the board of directors/audit committee, external auditors and/or senior management.
- How do you monitor/follow up on audit findings? Are findings classified as to significance?

Ethics

- Does the company have a code of conduct/ethics in place? Is it enforced? Approved?
- Explain your commitment to ethics and explain how you convey that commitment to your employees.
- How does the company compare to others in terms of its position on ethics?
- Do you have any knowledge or suspicion of fraud within the company?

Risk Areas

- How are key risks faced by the company identified and monitored?
  - What are the key prospective risks the company faces?
  - How are these risks communicated to senior management and throughout the company?
- What key risks do you monitor in your position?
  - What reports or other means do you utilize to evaluate the risks?
- Do you monitor risks relevant to specific components or divisions within the entity?
- How do you determine which audits to perform and the appropriate scope for those audits?

Risk Mitigation Strategies (Internal Controls)

- How does the internal audit department address the potential for override of internal controls?
- Do you discuss with the audit committee/board of directors how the internal control system serves the company? How often?
- How has the NAIC *Annual Financial Reporting Model Regulation* (Model Audit Rule) affected the company, if at all? How has it affected the holding company and/or the internal audit department?
- Describe any internal control issues discussed during the most recent audits.
- Do you review the company's application of accounting guidance?

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## EXHIBIT AA

### SUMMARY REVIEW MEMORANDUM

#### *DETAIL ELIMINATED TO CONSERVE SPACE*

When the insurer is part of a holding company, documentation should reference the level at which conclusions are reached. Additional assessment may be necessary at the individual entity level, but the primary focus of the assessment will commonly be at the holding company level in a coordinated examination. Documentation should clearly indicate the exam's utilization and reliance on the company's ORSA/ERM processes to assist in the identification of key risks and/or controls.

It may also be appropriate to provide additional risk specific commentary related to ERM/ORSA review within the Branded Risk Assessments. Documentation should provide summary level information for key risks, with reference to examination workpapers for additional detail, when necessary. Risk specific commentary should include consideration of the following areas, if applicable:

- New risks for the analyst to consider in its ongoing financial surveillance.
- Risk specific controls/risk mitigation strategies that were validated during the examination.
- Evaluation of risk assessment techniques, including appropriateness of stress scenarios and underlying quantification techniques and assumptions.
- Risks that may require further ongoing surveillance or recommended follow-up by the Department.
- Other sources of information to evaluate key risks not referenced in the ORSA (e.g., key risk indicators, presentations to the BOD, project plans, etc.).

For coordinated examinations of Internationally Active Insurance Groups (IAIGs), or other groups as deemed appropriate, additional documentation may be necessary. This may include discussion of the group's supervisory plan, an overall assessment of the group's risk management framework and the criteria considered in reaching that conclusion (e.g., capital adequacy and availability, regulatory capital requirements at the group and legal entity level, complexity of the group and its impact on the effectiveness of the group's corporate governance, etc.), and other relevant reporting requirements deemed applicable by the group-wide supervisor.

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## Financial Analysis Handbook ComFrame Exposure - Comment Matrix

Commenter	#	Topic	How Addressed	FAH Reference
ACLI	6	References to the ICS - Recommend removing all reference to the ICS from FAH	As discussed following the Fall 2021 exposure period, the drafting group does not agree with the recommendation to eliminate all references to the ICS, as it feels some background information on ICS can be beneficial to IAIG financial analysts in communicating with other jurisdictions. However, after receiving similar comments during the previous exposure, the drafting group incorporated updates to the guidance to clarify that the focus of group capital review should be on GCC and ORSA information and that consideration of IAIS filings (i.e. Aggregation Method and/or ICS) should just be for purposes of communication with other jurisdictions in supervisory college discussions.	VI-C VI-J
Travelers	ORSA 4	Head of the IAIG Definition - Recommend language edits to Head of the IAIG definition in FAH.	Language edits accepted to replace "supervision" with "management/control" in describing the role of the Head of the IAIG.	VI-B
Travelers	1	Various References to ComFrame, ICPs and IAIS Application Papers - Recommending removal from FAH to avoid confusion and incorporation by reference.	After the Fall 2021 exposure, the drafting group updated language throughout the FAH to indicate that references to ComFrame, the ICPs and Application Papers are included for background information and best practice consideration and are not intended to incorporate requirements by reference. These references are important resources for regulators to be aware of as ComFrame outlines the expectations of other involved supervisors regarding the oversight to be performed by the GWS.	Various
NAMIC	1	Outsourcing of Functions - Recommend removal of procedures and considerations for review of material outsourced functions as the regulator has no explicit authority in this area.	Broad authority is provided to insurance regulators through the Model Law on Examinations (NAIC #390) and the Insurance Holding Company System Regulatory Act (NAIC #440) to conduct investigations in accordance with procedures outlined in NAIC Handbooks. Such investigations assess the current and prospective solvency of an insurer, which includes an evaluation of governance and control processes over the outsourcing of critical functions. As such, the drafting group elects to retain guidance on a review of outsourced functions in the draft.	VI-C
NAMIC	2	Review of Corporate Governance - Recommend removal of additional governance considerations for IAIGs (i.e. 6a, 6b, 7a) as the topics extend beyond what is required to be covered in the CGAD (i.e. NAIC Models 305 & 306).	As discussed above, broad regulatory authority is available for conducting regulatory investigations and is not limited to reviewing or verifying information provided in an annual CGAD filing. In addition, Model #440 provides more specific authority to "request, from any member of an internationally active insurance group subject to the commissioner's supervision, information necessary and appropriate to assess enterprise risk, including, but not limited to, information about the members of the internationally active insurance group regarding: (a) Governance, risk assessment and management." Therefore, additional considerations when evaluating the governance practices of an IAIG are clearly within a regulator's authority. As such, the drafting group elects to retain this guidance in the current draft.	VI-D

Commenter	#	Topic	How Addressed	FAH Reference
		CMG Recovery Plan Considerations - Recommend removal of language indicating that the Crisis Management Group should determine whether a formal recovery plan should be required of IAIGs as there is no explicit authority in state law for a recovery plan to be required.	As discussed above, specific regulatory authority over IAIGs is outlined in Model #440 to request information as necessary to assess enterprise risk. In addition, other authority provided in the model allows the commissioner to "compel development and implementation of reasonable measures designed to ensure that the internationally active insurance group is able to timely recognize and mitigate enterprise risks," which could include the development of recovery plans. Therefore, the drafting group elects to retain guidance that encourages the GWS to work with the Crisis Management Group to determine whether a recovery plan should be required of an IAIG.	VI-J
NAMIC	3	References to the ICS - Recommend removing all reference to the ICS from FAH, or clarifying the NAIC's position on the ICS in the text.	See discussion of similar ACLI comment above.	VI-C VI-J



## VI.A. Group-Wide Supervision – Framework

## Introduction

The framework for group-wide supervision within the state-based system of regulation is set forth in the *Insurance Holding Company System Regulatory Act* (#440), the *Insurance Holding Company System Model Regulation with Reporting Forms and Instructions* (#450), the *Model Law on Examinations* (#390) and other NAIC tools. These NAIC models and tools, along with individual state laws and regulations establish the guidance for the analysis of insurance holding company systems. This includes a risk-focused approach to group regulation supervision where specific risks that are germane to most insurance holding company structures are addressed directly through regulation, while other more broad-based risks are addressed in the supervision review process.

Throughout this document, the term “regulation” is used to describe statutory provisions required under state laws, state regulations, or similar requirements. Also throughout this document, the term “supervision” and “supervisory process” is used to describe the process(es) of monitoring the financial condition of the insurance group, or what is commonly referred to as the analysis process/function or examination process/function. This terminology is used to help clarify those risks addressed through statute or regulation versus those risks addressed through supervision. ~~This distinction is also made because in other countries, it is not uncommon for the “regulations” to be established by policymakers that are not “day-to-day” supervisors that monitor the financial condition of the insurer and insurance group. In the U.S., the state insurance departments draft proposed legislation and are responsible for “day-to-day” supervision.~~

State insurance regulators believe that group-wide supervision is key to helping fulfill the regulatory mission cited in the *United States Insurance Solvency Framework* (U.S. Solvency Framework), which states: “To protect the interests of the policyholder and those who rely on the insurance coverage provided to the policyholder first and foremost, while also facilitating an effective and efficient market place for insurance products.” The state-based system uses both regulation and supervision to fulfill this regulatory mission, but is focused more on the supervision process for group-wide supervision as that lends itself to a more balanced approach between free markets and solvency protection. The supervision review process is flexible as to the nature, scale and complexity of the risks presented to the group. Plus, the supervision review process is flexible in dealing with risk exposure, risk concentration and the interrelationships of risks among entities within the group. However, there are situations where specific statutory authority and regulations are deemed more appropriate.

IAIG: For internationally active insurance groups (IAIGs) where a state insurance regulator is acting as the group-wide supervisor (see VI.B for criteria and definitions), it may be necessary to address additional areas regarding group-wide activities and risks. Such areas are largely consistent with the International Association of Insurance Supervisors’ (IAIS) Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) and have been incorporated throughout this chapter as deemed appropriate by state insurance regulators. While such considerations and procedures are applicable to insurance groups identified as IAIGs (see state adoption of Model #440 Section 7.1), similar procedures applicable under the state’s adoption of Model #440 Section 6 may also be appropriate for use in the supervision of other large insurance groups that do not meet the IAIG criteria. In assessing any such application, analysts must not exceed their legal authority and any supervisory measures should be risk-based and proportionate to the size and nature of the group.

Likewise, because ComFrame is to be applied flexibly and proportionately, not every additional area of IAIG supervision will apply to each IAIG or will apply in the same way or to the same extent. Group-wide supervisors have the flexibility to tailor implementation of supervisory requirements and application of insurance supervision. ComFrame is not a one-size-fits-all approach to IAIG supervision as the goal is to achieve the intended outcomes set forth in ComFrame. IAIGs have different models of governance (e.g., more centralized, or more decentralized). ComFrame does not favor any particular governance model and is intended to apply to all models. The organization of an IAIG can be structured in various ways as long as the intended outcomes are achieved. Proportionate application, which is called for in IAIS guidance, involves using a variety of supervisory techniques and practices tailored to the insurer. The techniques and practices applied should not go beyond what is necessary in order to achieve the intended outcomes of the IAIS’ Insurance Core Principles and ComFrame.

**VI.A. Group-Wide Supervision – Framework**

The following are excerpts from the NAIC models that help set forth the authority for the group-wide supervision framework.

**Authority Related to the Supervision Review Process**

Supervision review Model #440: (bolding and underlining used for emphasis).

**Section 6. Examination**

- A. Power of Commissioner...the commissioner shall have the **power to examine any insurer registered under Section 4 and its affiliates to ascertain the financial condition of the insurer**, including the enterprise risk to the insurer by the ultimate controlling party, or by any entity or combination of entities within the insurance holding company system, or by the insurance holding company system on a consolidated basis.

**Section 1. Definitions**

- F. "Enterprise Risk." "Enterprise risk" shall mean any activity, circumstance, event or series of events involving one or more affiliates of an insurer that, if not remedied promptly, **is likely to have a material adverse effect upon the financial condition or liquidity of the insurer or its insurance holding company system as a whole**, including, but not limited to, anything that would cause the insurer's Risk-Based Capital to fall into company action level as set forth in [insert cross reference to appropriate section of Risk-Based Capital (RBC) Model Act] or would cause the insurer to be in hazardous financial condition [insert cross reference to appropriate section of Model Regulation to define standards and commissioner's authority over companies deemed to be in hazardous financial condition].

**Section 7.1. Group-wide Supervision of Internationally Active Insurance Groups**

- A. If the commissioner is the group-wide supervisor for an internationally active insurance group, the commissioner is authorized to engage in any of the following group-wide supervision activities:

- (1) Assess the enterprise risks within the internationally active insurance group to ensure that:

- (a) The material financial condition and liquidity risks to the members of the internationally active insurance group that are engaged in the business of insurance are identified by management, and

- (b) Reasonable and effective mitigation measures are in place;

- (2) Request, from any member of an internationally active insurance group subject to the commissioner's supervision, information necessary and appropriate to assess enterprise risk, including, but not limited to, information about the members of the internationally active insurance group regarding:

- (a) Governance, risk assessment and management,

- (b) Capital adequacy, and

- (c) Material intercompany transactions;

- (3) Coordinate and, through the authority of the regulatory officials of the jurisdictions where members of the internationally active insurance group are domiciled, **compel development and implementation of reasonable measures designed to ensure that the internationally active insurance group is able to timely recognize and mitigate enterprise risks** to members of such internationally active insurance group that are engaged in the business of insurance;

- (4) Communicate with other state, federal and international regulatory agencies for members within the internationally active insurance group and share relevant information subject to the confidentiality provisions of Section 8, through supervisory colleges as set forth in Section 7 or otherwise;

- (5) Enter into agreements with or obtain documentation from any insurer registered under Section 4, any member of the internationally active insurance group, and any other state, federal and international

**VI.A. Group-Wide Supervision – Framework**

regulatory agencies for members of the internationally active insurance group, providing the basis for or otherwise clarifying the commissioner's role as group-wide supervisor, including provisions for resolving disputes with other regulatory officials. Such agreements or documentation shall not serve as evidence in any proceeding that any insurer or person within an insurance holding company system not domiciled or incorporated in this state is doing business in this state or is otherwise subject to jurisdiction in this state; and

(6) Other group-wide supervision activities, consistent with the authorities and purposes enumerated above, as considered necessary by the commissioner.

Model #390:

**Section 1. Purpose**

...The purpose of this Act is to provide an effective and efficient system for examining the activities, operations, financial condition and affairs of all persons transacting the business of insurance in this state and all persons otherwise subject to the jurisdiction of the commissioner. **The provisions of the Act are intended to enable the commissioner to adopt a flexible system of examinations** that directs resources as may be deemed appropriate and necessary for the administration of the insurance and insurance related laws of this state.

**Section 3. Authority, Scope and Scheduling of Examinations**

A. The commissioner or any of the commissioner's examiners **may conduct an examination under this Act of any company as often as the commissioner in his or her sole discretion deems appropriate...**

**Scope of Group Regulation**

The Model #440 defines the scope of group-wide regulation ~~in the states~~ through various means including defining specific important terms such as the insurance holding company system, an affiliate, and control. These are important terms as they are used to define the scope of the group being the ultimate controlling person or entity, and all of its direct and indirectly controlled subsidiaries, and therefore subject to the requirements of the Model #440, ~~which is in turn subject to group-wide supervision~~. It is important to note that these definitions also consider the extent to which there is either direct or indirect participation in the group, influence and contractual obligations that suggest there is control or influence over the group. Consequently, group-wide regulation and supervision includes all insurers, all operating and non-operating holding companies, non-regulated entities and special-purpose entities. It also includes other regulated entities such as banks, utilities or securities companies. In all cases, the lead state would need to understand all such entities and the risks that such entities pose to the insurer or group as a whole. However, with respect to the other regulated entities, Section VI.C. – Insurance Holding Company System Analysis Guidance (Lead State) of this Handbook discusses that the lead state's role is to establish a plan for communicating and coordinating with ~~the functional~~ other regulators as well as other supervisors (e.g., international insurance regulators), if significant events, material concerns, adverse financial condition or prospective risks are identified.

**Multi-Jurisdictional/Functional Cooperation**

The scope of group-wide regulation under Model #440 is clearly meant to apply to all entities within the controlled group; it also makes an equally important distinction regarding authority. Under the U.S. group supervision approach, the lead state is responsible for understanding all the risks posed by the regulated and non-regulated entities within the group, but it does not have authority over the other regulated entities within the group. For many years, state insurance regulators have developed different methods of cooperating with each other in an effort to maximize the effectiveness of regulation while respecting the authority that each state has to protect the policyholders in their state. The states have worked together in a multitude of ways to provide these benefits. One of the best examples of cooperation is state participation in the NAIC's Financial Analysis (E) Working Group (commonly referred to as "FAWG"). The Working Group's primary role is to identify insurance companies and groups of national significance that are, or may be, financially troubled, and determine

**VI.A. Group-Wide Supervision – Framework**

whether appropriate regulatory action is being taken, and if not, what action should be taken. This group of state regulators meets and holds conference calls throughout the year. This peer review process is an essential part of the state-based system of insurance regulation in that it reinforces the communication and cooperation that is necessary to regulate insurers and insurance groups.

IAIG: In addition, Model #440 provides definitions for Internationally Active Insurance Group (IAIG) and group-wide supervisor, which allow state insurance regulators to fulfill roles consistent with ComFrame for cooperation across international jurisdictions in supervising IAIGs. See additional information in VI.B.

**Supervision Review Process (Risk-focused Financial Surveillance Process)**

States use specific procedures in carrying out the risk-focused financial surveillance process. Many of these procedures are focused on monitoring of the insurance legal entity and group. The legal entity regulation is performed in order to have a bottom-up view of the group, whereas the holding company analysis uses the top down approach. The NAIC has developed procedures for carrying out the risk-focused surveillance process, and such procedures are documented in this Handbook and in the Financial Condition Examiners Handbook. The following summarizes some of these requirements. For more specific information, see Section VI.B Roles and Responsibilities of the Group-Wide Supervisor/Lead State of this Handbook.

Communication: All domestic states are expected-encouraged to communicate any significant findings or concerns they have up to the lead state for consideration in the comprehensive holding company analysis. In addition, lead states of IAIGs are expected to communicate any significant findings or concerns to the group-wide supervisor (if different than the lead state) through the use of supervisory colleges, crisis management groups or other means necessary to address any enterprise-wide concerns that arise. Domestic and lead states should not take regulatory action or place sanctions on an insurance legal entity or key individual within a broader holding-company system without first communicating with the lead state and/or group-wide supervisor.

~~The NAIC has developed procedures for carrying out the risk-focused surveillance process, and such procedures are documented in this Handbook and in the Financial Condition Examiners Handbook. The following summarizes some of these requirements. For more specific information, see Section VI.B Roles and Responsibilities of the Group-Wide Supervisor/Lead State of this Handbook.~~

**Financial Analysis Handbook and Role of the Analyst**

As part of the risk-focused surveillance approach, the financial analyst role is to provide continuous off-site monitoring of a group's financial condition, monitor internal/external changes relating to all aspects of the insurer and work with examination staff to review specific risks through an on-site examination. The holding company analysis procedures are designed to determine what risks exist at the holding company. Every holding company system is reviewed in order to derive an overall assessment that highlights areas where a more detailed analysis may be necessary. The procedures are intended to be used at the discretion of analysts depending upon the sophistication, complexity and overall financial position of the holding company system, as well as the degree of interdependence and interconnectivity within the holding company system. Also, consistent with the risk-focused surveillance approach, analysts should have a firm understanding of the following branded risk categories for each group:

- **Credit (CR)**—Amounts actually collected or collectible are less than those contractually due or payments are not remitted on a timely basis.
- **Legal (LG)**—Non-conformance with laws, rules, regulations, prescribed practices or ethical standards in any jurisdiction in which the entity operates will result in a disruption in business and financial loss.
- **Liquidity (LQ)**—Inability to meet contractual obligations as they become due because of an inability to liquidate assets or obtain adequate funding without incurring unacceptable losses.

**VI.A. Group-Wide Supervision – Framework**

- **Market (MK)**—Movement in market rates or prices, such as interest rates, foreign exchange rates or equity prices adversely affects the reported and/or market value of investments.
- **Operational (OP)**—The risk of financial loss resulting from inadequate or failed internal processes, personnel and systems, as well as unforeseen external events.
- **Pricing/Underwriting (PR/UW)**—Pricing and underwriting practices are inadequate to provide for risks assumed.
- **Reputational (RP)**—Negative publicity, whether true or not, causes a decline in the customer base, costly litigation and/or revenue reductions.
- **Reserving (RV)**—Actual losses or other contractual payments reflected in reported reserves or other liabilities will be greater than estimated.
- **Strategic (ST)**—Inability to implement appropriate business plans, to make decisions, to allocate resources or to adapt to changes in the business environment will adversely affect competitive position and financial condition.

Analysts should also consider any prospective risk to the group. A prospective risk is a residual risk that affects future operations or conditions for the group. These prospective risks ~~arise due to~~ can be identified through assessments of company management and/or operations or risks associated with future business plans. Common types of such risks for insurers may include, underwriting strategy, investments strategy, ~~claims~~, and reinsurance strategy and diversification/concentration. However, other risks from non-insurers can also include off-balance sheet exposures and other risks driven by the business model of that non-insurer. The analyst's understanding of the above nine risk classifications includes an assessment of the level of that risk and the ability of the entity to appropriately manage the risk during the current period and prospectively. The assessment of these nine risk classifications both currently and prospectively should be part of the quantitative and qualitative analysis completed within the holding company analysis. ~~All groups have prospective risks. The Financial Condition Examiners Handbook provides guidance on prospective risks within Section 3—Examination Repositories.~~

The overall risk-focused surveillance process requires a significant amount of communication and coordination between the analysis and examination function to be effective. Analysts should identify and document all material current and prospective solvency risks and communicate those risks to the respective examiners for periodic onsite inspection.

Communication across functions is also discussed in more detail below (see Coordination in Risk-Focused Surveillance), as well as in Section I.A Department Organization and Communication of this Handbook.

At the conclusion of the basic holding company analysis performed on all groups, the lead state is required to document an overall summary and conclusion regarding the financial condition of the group, including its strengths and weaknesses and any risks identified. This summary and conclusion should be provided in the Group Profile Summary (GPS) that is maintained and updated on a regular basis. See the VI.B. for discussion of the GPS.

**Financial Examination Assessment**

Communication and/or coordination with other regulators are crucial when considering the financial condition of a group. There are various risks that the lead state may want to examine more closely through an on-site examination. The most common of such risks, or potential risk mitigators, is that which is derived from the group's governance and risk management practices. Both of these are reviewed during a full-scope examination. This information is then communicated and shared with analysts, the lead state and other regulators as necessary. The lead state should also consider whether these areas, or components of each, should be examined more periodically. There may be several other areas where the lead state may want to consider a targeted exam with respect to the group. In considering such a targeted review, it is important to consider both the flexibility

**VI.A. Group-Wide Supervision – Framework**

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envisioned within the Model #390 for such reviews, as well as the work conducted during a full-scope examination.

The fundamental purposes of a full-scope financial condition examination report are: 1) to assess the financial condition of the company; and 2) to set forth findings of fact (together with citations of pertinent laws, regulations and rules) with regard to any material adverse findings disclosed by the examination. The report on examination is structured and written to communicate to regulatory officials' examination findings of regulatory importance. Management letter comments are considered to be examination work papers and can be used to present results and observations noted during the examination. As it relates to groups, most of the examination work completed on a group basis is not expected to result in a report of examination, but rather is intended to communicate any concerns noted ~~with respect to the limited area of focus within the limited scope examination~~ internally. In most cases, the work completed will merely inform analysts and other state regulators as it pertains to a particular area. However, to the extent the examiner witnesses practices that are noteworthy, and for which there is a need to pursue a change in such practices, a management letter may be produced. Such a management letter provides an opportunity to alert management that, if left uncorrected could ultimately lead to financial concerns.

Management letter comments generally contain the following information:

- A concise statement of the problem found
- The factors that caused or created the problem
- The materiality of the problem and its effect or potential effect on the financial statements
- The financial condition of the group
- The examiner's recommendation to the group regarding what should be done to correct the problem.

The effectiveness of the financial examination process is enhanced if effective follow-up procedures have been established by the lead state. Periodically, after a financial examination report or management letter comment has been issued, inquiries should be made to the group to determine the extent to which corrective actions have been taken on report recommendations and findings. Because the examiners have usually moved on to another examination, many states use the financial analysts to perform this function. A lack of satisfactory corrective action by the group may be cause for further action.

The concept of risk in the risk-focused examination encompasses not only risk as of the examination date, but risks that extend or commence during the time in which the examination was conducted, and risks that are anticipated to arise or extend past the point of completion of the examination.

The risk-focused examination anticipates that risk assessment may extend through all seven phases of the examination.

- **Phase 1** – Understand the Company and Identify Key Functional Activities to be reviewed—This involves researching key business processes and business units.
- **Phase 2** – Identify and Assess Inherent Risk in Activities—These risks include credit, market, pricing/underwriting, reserving, liquidity, operational, legal, strategic and reputational.
- **Phase 3** – Identify and Evaluate Risk Mitigation Strategies/Controls—These strategies/controls include management oversight, policies and procedures, risk measurement, control monitoring, and compliance with laws.
- **Phase 4** – Determine Residual Risk—Once this risk is determined, the examiner can determine where to focus resources most effectively.
- **Phase 5** – Establish/Conduct Detail Examination Procedures—Upon completion of risk assessment, determine nature and extent of detail examination procedures to be performed.



**VI.A. Group-Wide Supervision – Framework**

- **Phase 6** – Update Prioritization and Supervisory Plan—Incorporate the material findings of the risk assessment and examination in the determination of the prioritization and supervisory plan.
- **Phase 7** – Draft Examination Report and Management Letter—Incorporate into the examination report and management letter the results and observations noted during the examination.

The goals of the risk-focused examinations can also apply to group-wide supervision and are as follows:

- Assessing the quality and reliability of corporate governance to identify, assess and manage the risk environment facing the insurer in order to identify current or prospective solvency risk areas. By understanding the corporate governance structure and assessing the “tone at the top,” the examiner will obtain information on the quality of guidance and oversight provided by the board of directors and the effectiveness of management, including the code of conduct established in cooperation with the board.
- Assessing the risks that a company’s surplus is materially misstated.

The procedures above are performed for purposes of completing a full-scope examination on an insurance legal entity. However, procedures related to governance and risk management ~~are can be~~ performed at the group level when appropriate. (See Section VI.B. for further discussion). In addition, for all other procedures, the states coordinate the examination of multiple insurance legal entities wherever possible. This typically involves identifying the systems that are common among members of the insurance group and only subjecting those common systems to one examination. This requires coordination among all domestic states and then further coordination in actually testing the particular system so that all domestic states can rely upon such work for their legal entity examinations.

Communication between analysts and examiners in preparation of an examination should include a thorough discussion of key risks, current and prospective. This communication and coordination may be best accomplished not only through written documentation but through face-to-face interaction. For example, the examiners and analysts ~~could should~~ meet for pre-examination planning, conduct follow-up meetings/calls to discuss analysis of subsequent filings and finally meet at the end of the examination whereby examiners can communicate examination findings to analysts that in turn may help analysts focus on their next review.

IAIG: In addition to the general governance and risk management considerations and the targeted procedures related to specific concerns incorporated into financial examinations, there are additional considerations highlighted in ComFrame that may be appropriate for incorporation into ongoing IAIG financial exams led by the group-wide supervisor. These considerations generally relate to ComFrame elements that are more effectively evaluated through on-site examination activities, such as the effectiveness of corporate governance, risk management and internal control frameworks in place at the head of the IAIG. For more information on IAIG examination considerations, please see Section 1.I.F of the NAIC’s *Financial Condition Examiners Handbook*.

**Coordination in Risk-Focused Surveillance**

Most, but not all state insurance departments follow a staffing model whereby separate units are responsible for off-site financial analysis and on-site financial examination activities. Such a staffing model can lead to challenges in supervising insurance groups, if state departments do not emphasize the importance of communication and coordination across units. In some cases, financial examination activities are outsourced to third parties, which can lead to additional complications. To encourage effective coordination and communication across units, state insurance departments use the common language of branded risk classifications (see discussion above) to identify and assess insurance company risk exposures and incorporate this language into meetings and reports shared across units (i.e., GPS, ORSA Lead State Summary, Exam Summary Review Memorandum). In addition, formal meetings and ongoing communication between the two units (if separate) are required during the planning, fieldwork and wrap-up stages of each financial examination to ensure effective coordination. Similar requirements are also in place to promote communication and

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**VI.A. Group-Wide Supervision – Framework**

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coordination between analysis/examination staff and any subject matter experts (i.e., actuaries, investment specialists, IT specialists, reinsurance specialists) that are supporting financial surveillance efforts.

**IAIG:** Given the level of complexity of many IAIGs and the critical need to ensure effective coordination in supervision, state insurance departments are encouraged to consider the benefits of customized approaches to financial surveillance staffing for IAIGs. For example, in some jurisdictions, both domestically and internationally, group-wide supervisors utilize a team-based approach to IAIG supervision whereby financial analysts, financial examiners, department supervisors and specialists (internal or external) are integrated into a single unit for purposes of group supervision. Such an approach can promote the use of a more well-rounded and integrated team of supervisors with different backgrounds and skillsets in reviewing group regulatory reporting, holding periodic meetings with the group, conducting group risk assessments, performing on-site inspections of group functions and leading ongoing supervisory college sessions. However, there may be other approaches to financial surveillance staffing that can be applied to address the nature and complexity of IAIGs. As such, state insurance departments acting as group-wide supervisors for IAIGs are encouraged to consider the benefits of more customized approaches to staffing in this area.

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Detail Eliminated to Conserve Space

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**VI.B. Group-Wide Supervision – Roles and Responsibilities of Lead State/Group-Wide Supervisor****Introduction and Overview**

The previous section introduced the U.S. group supervision framework. This included references to the NAIC model laws, including respective state laws and regulations that help set forth the framework, followed by a discussion of the supervision review process. As previously discussed, in the U.S., the supervisory review process consists primarily of off-site and on-site monitoring activities. This section will discuss the roles and responsibilities of the group-wide supervisor/lead state.

For purpose of this Handbook, the terms “group-wide supervisor” and “lead state” are used somewhat interchangeable, but with greater use of the term lead state. This is due to the fact that the states have used the term lead state for years, however there are some instances where both would exist, and therefore it is important to understand that distinction. The lead state is generally considered to be the one state that “takes the lead” with respect to conducting group-wide supervision within the U.S. solvency system. The concept of the lead state and determining the lead state is discussed more in the following section. A U.S.-based company that only conducts business in the U.S., unless the group also has banking or similar functions, would result in the lead state being the group-wide supervisor. In the case of an international-based company, the group-wide supervisor would typically be a foreign-based regulator. (See Section VI.J. Supervisory Colleges Guidance, regarding international supervisory colleges). Ideally, when a foreign-based group-wide supervisor is involved, the U.S. lead state regulator should be able to defer some of his or her responsibilities to the foreign-based group-wide supervisor. However, it is possible that the U.S. lead state may not be able to obtain group-wide information from the foreign-based group-wide supervisor, and, therefore, the U.S. lead state regulator may need to complete a portion of the group-wide analysis.

Before discussing the roles and responsibilities of the lead state/group-wide supervisor further, the following is defined:

**Group-wide supervision** – The process of promoting effective and coordinated supervision of an insurance group on a group-wide basis, including coordinating the input of insurance legal entity supervisors, as a supplement to insurance legal entity supervision, monitoring the financial condition of the group which implicitly includes determining, through a coordinated process with other functional regulators, the extent to which additional information is appropriate and then determining the extent to which additional action is appropriate.

The process for monitoring the financial condition of a group is similar to monitoring a specific insurer in that it requires the use of basic financial information, coupled with the ability to gather additional information produced by management. The information produced by the group’s management that is generally considered to be the most helpful is that which is associated with managing the group’s risks, or more specifically those risks that may ultimately have financial implications on the financial condition of the group, ~~or put differently, including~~ prospective risks. During this supervision review process, the regulators role is to understand the various risks faced by the group and how the group is managing such risks.

One of the primary reasons for determining a lead state/group-wide supervisor is to increase the efficiencies and effectiveness of group supervision. The state-based system framework for group supervision is centered on the *Insurance Holding Company System Regulatory Act* (#440), which provides, among other things, that every domestic state within the insurance group should have the ability to evaluate the group and its potential impact on the domestic insurer. The use of a lead state or group-wide supervisor has the benefit of retaining this authority but sets up a system in which states regularly defer this authority to a key regulator. However, even if domestic regulators are not technically required to defer this authority ~~to the lead state~~, this deferral is considered a best practice that should be used in virtually all cases, with few exceptions. This has the effect of increasing efficiency and effectiveness of group regulation.

**Lead State/Group-Wide Supervision Concept**

**VI.B. Group-Wide Supervision – Roles and Responsibilities of Lead State/Group-Wide Supervisor**

The operations of an insurance company often are not limited to one state. When multiple states are involved in monitoring the activities or approving the transactions of a company or insurance holding company system, it is prudent to coordinate regulatory efforts.

These coordinated activities should include:

- The establishment of procedures to communicate information regarding troubled insurers with other state insurance departments
- The participation on joint examinations of insurers, when appropriate
- The assignment of specific regulatory tasks to respective state insurance departments and/or other jurisdictions in order to achieve efficiency and effectiveness in regulatory efforts and to share personnel resources and expertise
- In the case of troubled or potentially troubled insurance groups, the establishment of a task force or crisis management group consisting of personnel from various state insurance departments and/or international jurisdictions to carry out coordinated activities
- Coordination and communication of insurance holding company system analysis

If significant concerns are identified related to the IAIG's current or prospective solvency, whether due to legal entity or group-wide risks, the group-wide supervisor should determine whether additional supervisory measures as outlined in Model #440 should be implemented. Model #440 provides the group-wide supervisor the authority to obtain the information necessary and appropriate to assess enterprise risk. In addition, Model #440 provides for coordination, through the authority of the regulatory officials of the jurisdictions where members of the IAIG are domiciled, to compel the development and implementation of reasonable measures designed to ensure that the IAIG is able to timely recognize and mitigate enterprise risks to members of the IAIG that are engaged in the business of insurance.

The concept of lead state/group-wide supervision is not intended to relinquish the authority of any state or jurisdiction, nor is it intended to increase any state or jurisdiction's statutory authority or to put any state or jurisdiction at a disadvantage. It is intended to facilitate efficiencies when one state coordinates the regulatory processes of all states and/or jurisdictions involved. Nevertheless, the lead state/group-wide supervisor should coordinate with non-lead states and/or other jurisdictions on all regulatory items that affect the group, or multiple legal entities contained in the group, to make it clear which state is responsible for activities and reduce regulatory duplication.

**Procedures for Determining the Lead State**

Insurance holding company systems with more than one U.S. insurance legal entity are deemed U.S. insurance groups and assigned NAIC group codes (see section VI.K for more information on group code assignment). For U.S. insurance groups with insurance entities domiciled in more than one U.S. state/jurisdiction, a lead state is selected to oversee the group. The ultimate decision of who should function as the lead state is up to the domestic state insurance regulators of the group where a majority of such domestic states must agree to the decision. However, in practice, it has generally occurred through a consensus decision. The determination of a lead state is affected by the following factors:

- The state with the insurer/affiliate with largest direct written premiums
- Domiciliary state/country of top-tiered insurance company in an insurance holding company system
- Physical location of the main corporate offices or largest operational offices of the group
- Knowledge in distinct areas of various business attributes and structures
- Affiliated arrangements or reinsurance agreements

**VI.B. Group-Wide Supervision – Roles and Responsibilities of Lead State/Group-Wide Supervisor**

- Lead state must be accredited by the NAIC

The Lead State Report is located in iSite+, within Summary Reports, and provides an up-to-date listing of all insurance groups and the companies within each group. The purpose of the report is to improve coordination and communication between regulators. The report also contains current contact information for the state's assigned insurance company analyst and the state's chief analyst which is maintained by state department staff. Within the Lead State Report the user can view the Domestic Report which displays each group that includes an insurer domiciled in the state selected by the user. The Consolidated Domicile Data Report displays consolidated data (direct and gross premiums written and percentage distribution and net admitted assets) by state within each group.

**Procedures for Identifying an IAIG**

U.S. based insurance holding company systems that operate internationally are designated Internationally Active Insurance Groups (IAIGs) if they meet the following criteria included in Model #440:

1. Premiums written in at least three countries;
2. The percentage of gross premiums written outside the United States is at least ten percent (10%) of the insurance holding company system's total gross written premiums; and
3. Based on a three-year rolling average, the total assets of the insurance holding company system are at least fifty billion dollars (\$50,000,000,000) or the total gross written premiums of the insurance holding company system are at least ten billion dollars (\$10,000,000,000).

Any involved supervisor of an insurance group operating internationally may prompt the process of identifying an IAIG. If no group-wide supervisor has been determined (see discussion on determination below), the supervisor most demonstrating the characteristics of a group-wide supervisor should lead the identification process and invite other involved supervisors to participate. The scope of an insurance group should be determined before considering whether the criteria for determining whether the group is an IAIG are met. If there is already a supervisory college for a group, it should be used to facilitate the determination as to whether the group is an IAIG.

In addition to the primary criteria for use in identifying an IAIG, although not explicitly addressed in Model #440, in limited circumstances it may be appropriate for the group-wide supervisor to utilize discretion to determine that a group is not an IAIG even if it meets the criteria or that a group is an IAIG even if it does not meet the criteria, if permitted under state law. If discretion is used, then the reasons for exercising such discretion should be based on verifiable and documented quantitative and qualitative information. Examples of situations where it may be appropriate to determine that a group is an IAIG, even if it does not currently meet the criteria include but are not limited to:

- Growth/expansion or acquisition plans of the group
- Significant off-balance sheet assets
- Situations where a temporary event or fluctuation causes the group to fall below thresholds

Examples of situations where it may be appropriate to determine that a group is not an IAIG even though it currently meets the criteria include but are not limited to:

- Planned contraction or disposal of business
- Situations where an unusual event or fluctuation causes the group to temporarily exceed thresholds
- Situations where the group's business outside the U.S. exceeds 10% in aggregate but its business in any one foreign jurisdiction is negligible

The group-wide supervisor should regularly review its decision to determine whether the group continues to meet the criteria and invite other involved supervisors to participate in that process. At a minimum, the group-

**VI.B. Group-Wide Supervision – Roles and Responsibilities of Lead State/Group-Wide Supervisor**

wide supervisor should review its decision once every three years and whenever a significant change or event occurs that impacts the group.

Model #440 states that prior to issuing a determination that an internationally active insurance group is subject to group-wide supervision, the commissioner shall notify the insurer and the ultimate controlling person within the IAIG providing reasons for that decision. The IAIG shall have not less than thirty (30) days to provide the commissioner with additional information pertinent to the pending determination. The commissioner shall publish on the state's website the identity of IAIGs that the commissioner has determined are subject to group-wide supervision.

**Procedures for Determining the Group-wide Supervisor**

Model #440 defines group-wide supervisor as the regulatory official authorized to engage in conducting and coordinating group-wide supervision activities who is determined or acknowledged by the commissioner to have sufficient significant contacts with the internationally active insurance group. Model #440 requires a single group-wide supervisor to be identified for any IAIGs operating in the U.S., which could either be a state insurance regulator (most likely the lead state in the case of a U.S. based insurance groups) or a regulatory official from another jurisdiction, based on individual facts and circumstances. The following factors are considered when making the group-wide supervisor determination:

1. The jurisdiction of domicile of the insurers within the internationally active insurance group that hold the largest share of the group's written premiums, assets or liabilities;
2. The jurisdiction of domicile of the top-tiered insurer(s) in the insurance holding company system of the internationally active insurance group;
3. The location of the executive offices or largest operational offices of the internationally active insurance group;
4. Whether another regulatory official is acting or is seeking to act as the group-wide supervisor under a regulatory system that the commissioner determines to be:
  - a. Substantially similar to the system of regulation provided under the laws of this state, or
  - b. Otherwise sufficient in terms of providing for group-wide supervision, enterprise risk analysis, and cooperation with other regulatory officials; and
5. Whether another regulatory official acting or seeking to act as the group-wide supervisor provides the commissioner with reasonably reciprocal recognition and cooperation.

**Procedures for Identifying the Scope and Head of the IAIG**

In conducting group-wide supervision of an IAIG, it is important for the group-wide supervisor to work with other involved supervisors to identify all the legal entities that are part of the insurance group.

The determination of both the scope and head of the IAIG is significant to group supervision as review procedures and risk assessments ~~performed under ComFrame~~ are conducted at this level. Therefore, the group-wide supervisor should carefully consider this guidance, as well as additional best practice considerations outlined in Insurance Core Principle 23 – Group Wide Supervision, in making determinations regarding the scope and the head of the IAIG. However, IAIS materials are not deemed authoritative and should not be viewed as official NAIC guidance if they are not directly incorporated into this chapter. In addition, the group-wide supervisor should provide the supervisory college with the main reasons and judgements it made when identifying the H~~ead~~head of the IAIG and obtain concurrence from other college members, when possible.

**VI.B. Group-Wide Supervision – Roles and Responsibilities of Lead State/Group-Wide Supervisor**

To determine the scope and head of an insurance group, supervisors should:

- First identify all insurance legal entities within the corporate structure. Model #440 provides the authority to collect all information necessary to determine scope and head of the IAIG.
- Second, identify all entities which have control over those insurance legal entities, as defined in Model #440. As noted in Model #440, control is generally presumed to exist based on 10% or more ownership (direct or indirect) of voting securities but can also take operational control factors into consideration.
  - If this results in only one entity being identified with control over all the insurance legal entities, this entity is the head of the insurance group.
  - However, if there is more than one entity with control over all the insurance legal entities, supervisors should identify the head of the insurance group such as the entity which has the greatest level of control over the insurance business by considering the following factors:
    - The proportion of the insurance business relative to other businesses it controls;
    - The degree of operational control; and
    - The degree of shareholder control.

**Head of IAIG vs. UCP:** The head of the IAIG is not necessarily synonymous with the Ultimate Controlling Person of the holding company system, which is the top-tier company or individual with control over and responsibility for all entities within the holding company system that is not controlled by any other person. As holding company systems may include various business segments and intermediate holding companies, it is the responsibility of the group-wide supervisor, in consultation with other involved supervisors, to identify the entity most responsible for the direct supervision/management/control of the insurance operations of the group.

**Non-Insurance Legal Entities:** In determining the scope and head of the IAIG, the group-wide supervisor should consider whether non-insurance legal entities within the group pose risk to the insurance operations. In making this determination, the group-wide supervisor should evaluate whether there is a linkage between the insurance operations and the noninsurance legal entity (other than an investment in or from the non-insurance legal entities) that could adversely affect the insurance operations; and a lack of adequate safeguards, including additional capital, to mitigate risks arising from any such linkages. If so, such non-insurance entities should be included within the scope of the IAIG and the group-wide supervisor should take this into consideration in identifying the head of the IAIG.

**Subsidiary as Head of IAIG:** Where a legal entity controls all insurance legal entities within the group and non-insurance legal entities which pose risks to the insurance operations, the group-wide supervisor has discretion to identify a subsidiary of that entity as the head of the IAIG if: prudential supervision is exercised by another financial sector supervisor over that entity; and the group-wide supervisor can rely on the other financial sector supervisor to provide sufficient information concerning risk that this entity and the legal entities it controls pose to the insurance operations.

### **Lead State or Group Wide Supervisor Roles and Responsibilities**

The following identifies the roles and responsibilities, or procedures that should be performed by the lead state or group-wide supervisor as it relates to supervision of insurance groups. It also includes a short summary of the purpose of each of these duties. Most of these are further detailed in the remaining parts of this section of this Handbook.

### **Communication and Coordination**

Two of the main responsibilities of the lead state are:

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**VI.B. Group-Wide Supervision – Roles and Responsibilities of Lead State/Group-Wide Supervisor**

- 1) to establish communication with other identified states, federal regulators and international regulators, including establishing points of contact, and,
- 2) to determine the amount of interest in participating in the multi-jurisdictional coordination. It also includes establishing lines of communication and serving as the regulatory contact with top management of the group.

~~However, what is~~The most important ~~role of is that~~ the lead state ~~is to~~ acts as a communicator of ~~such group risk assessment~~ information to other domestic states and then acts as a coordinator with the other states in determining what, if any, further action is appropriate regarding the domestic insurers in the group or the group as a whole. By serving in this role, the lead state can coordinate and add efficiency to the states' requests for group-level information. This approach helps to prevent regulatory gaps and, more importantly, efficiently detect problems earlier. In addition, this approach also helps to reduce duplication of regulatory requests with non-lead states only making additional regulatory requests of an insurer's domestic entity(ies) located in that non-lead state. Inquiries seeking group-level information or information concerning entities domiciled in another state or jurisdiction should be coordinated by, and made by, the lead state. Non-lead states should generally not pursue such inquiries directly with the group parent or indirectly through queries channeled via a domestic. To increase the effectiveness of this concept, it may be helpful for the lead state to find a means to make sure that each group for which it is the lead is aware that it is, in fact, the lead state for that group. This may include directing it to certain information or through some other communication.

**Confidentiality of Information.** Maintaining confidentiality of all information is of utmost importance and as such implementing confidentiality agreements with all regulators is imperative. The lead state is responsible for communicating and coordinating the procedures as to how information will be shared among each other. Verbal or written briefings that are arranged by the lead state, in conjunction with company management, have been the most effective.

**Other Responsibilities.** The lead state will have many procedures assigned to it, which includes determining and documenting: 1) the depth of and approach to the insurance holding company analysis; 2) the assessment of the group's governance and enterprise risk; 3) questions addressed in a periodic meeting with the group; 4) targeted examination procedures; and 5) the extent to which there are any market conduct risks.

**Participating States.** In addition to the importance of lead state or group-wide supervisor communication and coordination, it is also important for domestic (non-lead) states to communicate and coordinate effectively regarding the group. Of particular importance is that a domestic state notifies the lead state and/or group-wide supervisor prior to taking any regulatory action or placing sanctions on an insurance legal entity or key individual within a broader holding-company system. This type of proactive communication can ensure that regulators are effectively coordinating and not undermining each other's efforts in conducting group/legal entity supervision.

**Holding Company Analysis and the Group Profile Summary (GPS)**

NAIC Model #440, which has been adopted by all the states, establishes the platform for holding company analysis. One of the most important aspects of the holding company analysis is the requirement for the lead state to understand the entire insurance holding company system. As previously noted, the holding company system includes the ultimate controlling person or entity, as well as all of its direct and indirectly controlled subsidiaries. There are various things that must be considered in gaining this understanding, including documenting the nature and function of all non-insurance legal entities within the holding company system. The primary purpose of gaining such an understanding is determining the risks and risk concentrations that each entity may pose to the insurer and the group as a whole.

Another important aspect of the holding company analysis is the analysis of the financial condition of the insurance holding company system. This specifically includes evaluating and assessing how four different areas i.e., profitability, leverage, liquidity and overall financial condition - impact its exposure to the nine branded risk

**VI.B. Group-Wide Supervision – Roles and Responsibilities of Lead State/Group-Wide Supervisor**

classifications. Although much of this analysis can be driven by aggregating risks identified in the legal entity analysis (including a review of the Insurer Profile Summary (IPS)) and by reviewing the group's financial statements submitted as part of the registration statement or filed with the U.S. Securities and Exchange Commission (SEC), the analysis may also require further discussion with management of the group. See Section VI.H. – Periodic Meeting with the Group Procedures for further guidance.

Completing the holding company analysis as detailed in Section VI.C. Insurance Holding Company System Analysis Guidance (Lead State) is one of the roles of the lead state. This analysis is intended to be completed by the lead state only. However, as discussed elsewhere in this Handbook, all domestic states are responsible for documenting the impact that the holding company group could have on the domestic insurer, which requires a basic level of understanding of the group's risks.

**Group Profile Summary (GPS).** All results of holding company analysis are to be documented in the GPS for purposes of presenting a comprehensive view of the current and prospective risks facing the holding company group as well as the ongoing regulatory plan (or supervisory plan) to ensure effective supervision. A separate supervisory plan document may also be utilized to outline more detailed steps to ensure effective supervision for high-priority or potentially troubled insurers within the group, as necessary. The purpose of the GPS also is to serve as the primary communication tool between the lead state and other regulators that provides consistency between the states. The GPS is intended to serve as a “living document” to “house” summaries of information from legal entity IPSs that are material to the group, such as coordinated risk-focused examinations, financial analysis, internal and external changes, supervisory plans, and other group information. Completing and distributing the GPS to other regulators on a timely basis is the sole responsibility of the lead state.

Analysts are involved in all phases of the risk-focused surveillance approach. There should be a continuous exchange of information between examiners and analysts to ensure that all members of the department are properly informed of solvency issues related to the group. Analysts should work with the examination staff to update the GPS.

**IAIG:** In performing holding company analysis and maintaining a GPS for IAIGs, the group-wide supervisor should ensure that both the scope and head of the IAIG are clearly defined and described within analysis documentation. In addition, key considerations relevant to IAIGs are highlighted throughout to ensure that they are adequately addressed and incorporated, as appropriate, into holding company analysis processes and the GPS to meet the expectations of other involved international supervisors.

**Corporate Governance Risks**

The *Model Regulation to Define Standards and Commissioners Authority for Companies Deemed to be in Hazardous Financial Condition* (#385) specifically indicates that if an officer, director, or any other person who directly or indirectly controls the operation of the insurer, fails to possess and demonstrate the competence, fitness and reputation deemed necessary to serve the insurer in such position, the insurer can be deemed to be a company that is in a hazardous financial condition. Clearly, this inclusion recognizes that such a situation is a risk to a policyholder. For this reason, Model #385 specifically provides the supervisor with the authority to issue and order that insurer to correct corporate governance practice deficiencies, and adopt and use governance practices acceptable to the commissioner.

The NAIC has incorporated into its *Annual Financial Reporting Model Regulation* (#205) specific governance requirements as it pertains to insurers audit committees. Most notably, the regulation requires an increasing amount of independent audit committee members as the premium increases. The calculation of this independence requirement may be provided to the audit committee on an aggregate basis for insurers in the insurance holding company system. However, specific reporting is limited and instead governance is assessed with information gathered during the examination and analysis process.

The *Corporate Governance Annual Disclosure Model Act* (#305) and the *Corporate Governance Annual Disclosure Model Regulation* (#306) provide the analyst with annual reporting from insurers on their corporate governance

**VI.B. Group-Wide Supervision – Roles and Responsibilities of Lead State/Group-Wide Supervisor**

practices. While there is flexibility in determining the level at which governance information is reported in the annual filing, the insurer or insurance group is encouraged to make the CGAD disclosures at the level at which the risk appetite is determined, or at which the earnings, capital, liquidity, operations, and reputation of the insurer are overseen collectively and at which the supervision of those factors are coordinated and exercised, or the level at which legal liability for failure of general corporate governance duties would be placed.

Assessing the corporate governance of the group is one of the roles of the lead state and group-wide supervisor and conclusions regarding this assessment should be incorporated in holding company analysis documentation and the GPS. Certain elements of governance that should be reviewed and assessed at the head of the IAIG level are discussed in more detail at VI.D.

**Enterprise Risk Management (ERM) Risks**

As part of the risk-focused surveillance system, analysts and examiners identify and assess the inherent risk in the branded risk categories using their authority under the *Model Law on Examinations* (#390) and specific state laws and regulations. Analysts, although more commonly the examiner, also identifies and evaluates risk mitigation strategies/controls to assess the risk management environment of the group and will consider that in determining the overall supervisory plan. Larger scale insurers and insurance groups are subject to all of the requirements of the *Risk Management and Own Risk and Solvency Assessment Model Act* (#505). This model requires among other things, the maintenance of a risk management framework to assist with identifying, assessing, monitoring, managing and reporting on its material and relevant risks. It also requires the completion of an Own Risk and Solvency Assessment (ORSA) no less than annually, but also at any time when there are significant changes to the risk profile of the insurer or the insurance group. The ORSA is the insurer/group's internal assessment appropriate to its nature, scale and complexity addressing the material and relevant risks associated with an insurer's current business plan and the sufficiency of capital resources to support those risks.

The ORSA has two primary goals:

1. To foster an effective level of ERM, through which each insurer or insurance group identifies, assesses, monitors and reports on its material and relevant risks, using techniques that are appropriate to the nature, scale and complexity of the insurer's risks, in a manner that is adequate to support risk and capital decisions.
2. To provide a group-level perspective on risk and capital, as a supplement to the existing legal entity view.

If a U.S. state insurance commissioner is the global group-wide supervisor of an IAIG, the U.S. state insurance commissioner should receive the ORSA Summary Report covering all material group-wide insurance operations. In addition, the insurer should work with the U.S. global group-wide supervisor to identify the head of the IAIG and determine which non-insurance operations (if any) within the group should be included within the scope of the ORSA Summary Report. However, for all ORSA filers, the non-insurance operations that present material and relevant risks to the insurer should be included in the scope of the ORSA Summary Report.

Otherwise, the insurer may file ORSA Summary Reports encompassing, at a minimum, the U.S. insurance operations, as long as the lead state receives ORSA Summary Reports encompassing the non-U.S. insurance operations. The lead state commissioner should discuss with the global group-wide supervisor from the relevant foreign jurisdiction(s) the report received from the global group-wide supervisor to inquire of any concerns and to either confirm that the report was compliant with the foreign jurisdictions' requirements or consistent with the applicable principles outlined in the International Association of Insurance Supervisors (IAIS) Insurance Core Principle (ICP) 16: Enterprise Risk Management (ERM), as well as the NAIC Own Risk and Solvency Assessment (ORSA) Guidance Manual to determine if additional information is needed. The commissioner will, where possible, avoid creating duplicative regulatory requirements for internationally active insurers.

Any follow-up associated with this risk assessment should be coordinated through the lead state to improve regulatory effectiveness and reduce the level of regulatory duplication. Assessing the ERM process risks of the group as detailed in Section VI.E. Enterprise Risk Management Process Risks Guidance is one of the roles of the lead state.



**VI.B. Group-Wide Supervision – Roles and Responsibilities of Lead State/Group-Wide Supervisor**

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**Market Conduct Risks**

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This Handbook discusses within Section I.A. Department Organization and Communication the need for communication with other divisions ~~within of~~ the insurance department. This Handbook also discusses within Section I.B. Interstate Communication and Cooperation, and specifically discusses regulatory actions taken relative to market conduct issues. The Risk Assessment worksheet within this Handbook also list market conduct actions/findings and documenting in the IPS. The IPS is a tool used for sharing information between states that also encompasses group information. Refer to the *Market Regulation Handbook* for further discussion of these types of risks.

**Periodic Meeting with Group**

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As previously discussed, Model #440 and respective state laws and regulations give state regulators the authority to obtain and examine any information related to the group in order to determine the financial condition impact on the insurer. In addition, there is generally a need to meet periodically with group management in order to ascertain that the regulator has all relevant information he or she needs to have a current understanding of the financial condition of the group and insurer.

How often such a meeting takes place, or the depth of discussion, will vary considerably from group to group. However, an in-person meeting is recommended in the year of an examination. For example, if an examination is as of December 31, 2014, then meet early in 2014. The lead state regulator will use its judgment in making decisions on whether to meet or not, based on what it already knows about the group and insurer. Every holding company situation is different, and for that reason, the lead state should use its judgment in determining how best to gather additional information that can come from this type of process.

With the general objective of better understanding the financial condition of the group, the lead state should tailor any questions or discussion points to most accurately fit what the regulator knows about the group and its financial position and what could be projected into the future without the benefit of understanding what the group is doing to address such items. Therefore, considering what type of questions should be developed, or the focus of such a discussion, either through an in person meeting or a conference call, is one of the roles of the lead state. See Section VI.H. Periodic Meeting with the Group procedures for possible questions to consider for such a meeting.

**Targeted Examination Procedures**

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The need for target examinations should be driven by the results of the risk-focused surveillance process. Therefore, because the general purpose of a targeted on-site examination is to focus resources on a particular risk, such procedures would generally be driven by any change in risks or any weaknesses or concerns given that on-site inspection can provide assurances that cannot be provided through off-site monitoring.

Targeted examinations on groups would generally not need to focus on risks that are already addressed within individual company examinations, unless there appears to have been a change in that risk since the last examination and that particular risk is one that is shared among several insurance legal entities within the group. It may be appropriate for the lead state to involve other domestic states in order to determine if resources for addressing such potential issue can be shared, thus preventing the extraordinary strain on the lead state resources. The targeted group examinations are generally expected to occur on those risks that are either outside the insurance legal entity or risks that are common to all entities within the group. Targeted examinations on changes in governance, risk management and internal controls are the more common areas where such procedures may be expected. Also expected, although not expected to be commonly performed, is targeted examination on particular non-insurance entities within the group. Considering if any targeted examination procedures should be completed is one of the roles of the lead state, and it should consider the

**VI.B. Group-Wide Supervision – Roles and Responsibilities of Lead State/Group-Wide Supervisor**

guidance in Section V.I. Targeted Examination Procedures and Guidance in making such a determination. Non-lead states should defer to the lead state with regard to whether a targeted group examination is necessary.

IAIG: For IAIGs, in certain circumstances targeted exam procedures may include the group-wide supervisor joining on-site inspections of an insurance legal entity in another jurisdiction to address specific issues of concern, coordinated by the relevant involved supervisor, with prior consent from that supervisor. In addition, it may be appropriate for the group-wide supervisor or other involved supervisors to conduct targeted exam procedures in response to concerns and risks identified during supervisory college discussions and to report the results back to the supervisory college. Finally, in addition to targeted exam procedures to address concerns identified through holding company analysis and supervisory colleges, the Financial Condition Examiners Handbook outlines additional examination considerations relevant to IAIGs that are more effectively conducted during an onsite examination.

**Supervisory Colleges**

The NAIC through the state regulators has defined a supervisory college as a regulatory tool that is incorporated into the existing risk-focused surveillance approach when a holding company system contains internationally active legal entities with material levels of activity and is designed to work in conjunction with a regulatory agency's analytical, examination and legal efforts. The supervisory college creates a more unified approach to addressing global financial supervision issues. Effective and efficient regulatory scrutiny of group-wide issues should occur in the context of an organized global approach and involve all significant regulatory parties, including regulatory agencies from countries outside of the U.S., and other state and federal agencies within the states. In rare cases (e.g., certain large health insurance groups), the use of a supervisory college for U.S.-only insurance groups (no insurance business outside the U.S.) may be beneficial to increasing the efficiency and effectiveness of group regulation. This type of supervisory college is referred to as a regional supervisory college.

A supervisory college establishes a routine communication channel with appropriate company personnel and all regulators, which can be beneficial in identifying the appropriate contacts quickly in the event of a crisis.

The above description of supervisory college is largely consistent with the lead state concept that has been used for years by state insurance regulators. In such situations, one jurisdiction takes the lead in terms of being primarily responsible for the coordination and communication between the insurance group and the other states, as well as other potential responsibilities. But, ultimately each jurisdiction may have to do what it believes is necessary in its jurisdiction and that is in the best interests of the policyholders in its jurisdiction. In addition, the supervisory college acts as a peer review process similar to how the NAICs Financial Analysis (E) Working Group acts as a peer review process of troubled or potentially troubled insurers or insurance groups. This peer review process has the effect of allowing other jurisdictions to defer some of their authority. To the extent issues arise, the collective group makes them known to all jurisdictions so that the group-wide supervisor and the other jurisdictions can discuss how best to deal with the issues. Alternatively, the collective group can make the jurisdiction aware that more may need to be done. State insurance regulators have been dealing with these types of multi-jurisdictional issues for years, ~~and just as Both~~ state insurance regulators and the International Association of Insurance Supervisors (IAIS) are aware that these situations demand mutual cooperation in order to build the relationship and trust needed, ~~so too does the International Association of Insurance Supervisors (IAIS) recognize the same.~~

IAIG: For IAIGs, the group-wide supervisor establishes a supervisory college which is expected to meet at least annually. In addition, the members of the IAIG's supervisory college are expected to communicate and exchange relevant information on an ongoing basis, including information on group capital prepared by the group-wide supervisor, as well as a summary of any additional reporting related to group capital that has been reported at the option of the group-wide supervisor. Furthermore, through the supervisory college process, the group-wide supervisor should establish a crisis management group (CMG) for the IAIG with the objective of enhancing preparedness for, and facilitating the recovery and resolution of, the IAIG. To facilitate this, the group-wide

**VI.B. Group-Wide Supervision – Roles and Responsibilities of Lead State/Group-Wide Supervisor**

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supervisor should put in place a written coordination agreement between the members of the IAIG CMG. The structure, participation in, and role of an IAIG supervisory college or CMG is ultimately the responsibility of the group-wide supervisor.

Considering if a supervisory college should be held and all of the related guidanceGuidance for use in conducting supervisory colleges and related activities is included in Section VI.J.

**VI.C. Group-Wide Supervision – Insurance Holding Company System Analysis Guidance (Lead State)**

The following information is intended to provide a narrative description of the issues/considerations for analysts when performing insurance holding company analysis as well as procedures and processes for developing a Group Profile Summary (GPS). As discussed in Section VI.B Roles and Responsibilities of the Lead State/Group-wide Supervisor, the Group-wide Supervisor/Lead State is not intended to eliminate any authority that any jurisdiction has over a legal entity insurer. Rather, group-wide supervision is intended to increase the efficiencies and effectiveness for each insurance group by emphasizing that one state is responsible for completing certain duties that allow all other domestic states to focus their efforts in other areas.

**States' Roles in Performing Insurance Holding Company Analysis**

It is important for analysts to understand the concept that the lead state has certain responsibilities pertaining to insurance holding company analysis and understanding that many of these responsibilities focus on increasing communication and coordination. There are several other coordination activities involved with group-wide supervision, particularly if the result of the group analysis identifies areas that targeted examination procedures are warranted within the insurance operations and as a result involve other states. The following table lists the possible scenarios and actions for lead and domestic states completing an insurance holding company system analysis:

When your state is the lead state and another state has a domestic in the group:	When your state is sharing duties with a lead state:	When your state is the lead state and all insurers within the group are domestics of your state:	When there is no group code, but your state's domestic is a multi-state writer and part of a holding company system (i.e., you receive a Form B):	*When your state domestic has a group code, but your state is NOT the lead state:
<ul style="list-style-type: none"> <li>Complete an insurance holding company analysis that considers procedures similar to those contained within the <i>Financial Analysis Handbook Insurance Holding Company Analysis</i> guidance and document results in the GPS.</li> <li>The insurance holding company analysis chapter represents guidance that the accreditation team will use to evaluate the sufficiency of depth and documentation considerations.</li> <li><del>Notify the other domestic regulators in the group by the end of August regarding when the insurance holding company analysis is anticipated to be completed.</del></li> <li>Complete before October 31<sup>st</sup>.</li> </ul>	<ul style="list-style-type: none"> <li>Coordinate the completion of holding company analysis and preparing a GPS.</li> <li>The <i>Financial Analysis Handbook Insurance Holding Company Analysis</i> chapter represents guidance that the accreditation team will use to evaluate the sufficiency of depth and documentation considerations.</li> <li><del>Notify the other domestic regulators in the group by the end of August regarding when the insurance holding company analysis is anticipated to be completed.</del></li> <li>Complete before October 31<sup>st</sup>.</li> </ul>	<ul style="list-style-type: none"> <li>Complete an insurance holding company analysis that considers procedures similar to those contained within the <i>Financial Analysis Handbook Insurance Holding Company Analysis</i> guidance and document the analysis results in the GPS.</li> <li>Complete before December 31<sup>st</sup>.</li> </ul>	<ul style="list-style-type: none"> <li>Complete an insurance holding company analysis that considers procedures similar to those contained within the <i>Financial Analysis Handbook Insurance Holding Company Analysis</i> guidance and document the analysis results in GPS.</li> <li>Complete before December 31<sup>st</sup>.</li> </ul>	<ul style="list-style-type: none"> <li>Offer a copy of the "legal entity IPS" or other applicable information to the lead state to assist in the completion of the insurance holding company analysis.</li> <li><u>Obtain and review the GPS from the lead state and update the impact of holding company on insurer section of the domestic IPS.</u></li> <li>If a copy of the analysis has not been received from the lead state by November, contact the lead state and consider completing your evaluation of the impact of the insurance holding company system on the domestic insurer without the benefit of a detailed insurance holding company analysis.</li> </ul>

\*Each state should still review Form B for its domestic companies (See also chapter V.A. Holding Company Procedures (Non-Lead State) and V.F. Holding Company Procedures (Non-Lead State) Analyst Reference Guide for possible Form B and C compliance and assessment procedures and guidance).

**VI.C. Group-Wide Supervision – Insurance Holding Company System Analysis Guidance (Lead State)****Detail Eliminated to Conserve Space****International Holding Company Considerations**

Many insurance companies domiciled in the U.S. are owned by holding companies that are located in foreign countries. Depending on the country of domicile, for some, financial information is not readily available through a government-sponsored source similar to the SEC. Analysts may find that the investor's page of publicly held international holding companies' websites will provide the best source of financial information.

The regulation of international holding companies varies according to the laws of its country of origin. For most European Union organizations, accounting treatment and reporting is somewhat consistent and is improving due to the efforts of many groups working with the standards developed by the International Accounting Standards Board (IASB). However, for many organizations domiciled in offshore countries, such as Ireland, those located in the Caribbean, and others, the regulation around public financial reporting may be less robust~~no regulation regarding public financial reporting exists.~~

Analysts should understand the contact structure of the organization. For example, a German-based holding company may have advisory boards established to communicate with U.S. regulators. Analysts should direct any regulatory concerns to the proper organization contact to ensure a prompt reply or resolution.

Many transactions between a foreign holding company and U.S. companies, including the holding company's U.S. subsidiaries, are governed by special requirements. Transactions such as reinsurance, servicing, investment, the handling of pooling taxes, etc., are controlled by requirements that are in many cases quite different from similar transactions between two domestic entities.

Foreign holding companies invest in their U.S. subsidiaries to nurture profitable operations, to complement existing operations or to add to existing capacity. Some foreign holding companies may consider their U.S. enterprises non-core and consequently show weaker commitment to their ongoing business operations or financial support. In recent years, after sustaining continued losses from U.S. subsidiaries, several prominent foreign holding companies decided to cease their U.S. operations and liquidate their assets.

Analysts should be aware of a holding company's stated commitment to ensure the continued stability of U.S. operations. This commitment may include a written or verbal parental guarantee.

Some points to consider when assessing a holding company's commitment regarding continued U.S. operations include:

- The importance of the U.S. operations in the insurance holding company structure
- The holding company's historical involvement in supporting its subsidiaries
- Parental guarantees or commitments of financial support, or failures to act on these commitments

**Detail Eliminated to Conserve Space****Additional Procedures for U.S. Based IAIGs**

The following general procedures are outlined for the group-wide supervisor of U.S. based IAIGs to use in analyzing the financial condition of the IAIG. Analysts should use their judgment in determining how to apply the procedures to group analysis and how to document the results but should not duplicate efforts if these considerations are already addressed in other holding company analysis, corporate governance or ORSA review procedures. However, as other jurisdictions expect the U.S. group-wide supervisor to address these elements on a regular basis, the analyst should consider the level of documentation to produce in this area. In addition, findings and

**VI.C. Group-Wide Supervision – Insurance Holding Company System Analysis Guidance (Lead State)**

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relevant information from the completion of these procedures should be incorporated into the GPS and shared with other impacted regulators, including supervisory college members, as deemed appropriate.

1. Consider and evaluate the complexity of the IAIG's group structure and the resulting risks to effective group-wide supervision.
  - a. See also procedure 1 of Appendix C in VI.F Group-Wide Supervision – Own Risk and Solvency Assessment (ORSA) Review Template.
2. Consider and evaluate the impact of the complexity of the IAIG's group structure on the effectiveness of its corporate governance framework.
  - a. See also procedures 6-8 in VI.D Group-Wide Supervision – Corporate Governance Disclosure Procedures.
3. Review the IAIG's capital adequacy and the availability of capital to meet group-wide capital expectations, considering the regulatory capital requirements for each insurance legal entity within the IAIG. Consider information provided in the Group Capital Calculation (GCC) in conducting this review, as well as information provided in Section 3 of the group's ORSA Summary Report (see related procedures in VI.F). When applicable and available, review group capital reporting such as the Aggregation Method or the Reference Insurance Capital Standard (ICS) as reported to the IAIS to prepare for discussions with international supervisors participating in a supervisory college. See also VI.J for guidance regarding discussions of group capital during IAIG supervisory college sessions.
  - a. ~~Consider~~Recognize and assess the effect of potential legal, regulatory, and operational impediments to the IAIG's ability to transfer capital and assets within the group, including on a cross-border basis.
4. If significant concerns are identified related to the IAIG's current or prospective solvency, whether due to legal entity or group-wide risks, determine whether additional supervisory measures (as outlined in Model #440) should be implemented to obtain the information necessary and appropriate to assess enterprise risk and to compel the development and implementation of reasonable measures designed to ensure that the IAIG is able to timely recognize and mitigate enterprise risks to members of the IAIG that are engaged in the business of insurance.
  - a. Coordinate with other involved supervisors (including the Crisis Management Group, if appropriate) before requiring a specific preventive or corrective measure if that measure will have a material effect on the supervision of the IAIG, or on the supervision of an insurance legal entity within the IAIG, unless exceptional circumstances preclude such coordination.
  - b. Coordinate with other involved supervisors (including the Crisis Management Group, if appropriate) if the hHead of the IAIG, or an insurance legal entity within the IAIG, fails to take action to address the group-wide supervisor's, or other involved supervisors, identified concerns.
    - i. If an insurance legal entity within the IAIG fails to take preventive or corrective measures, as required by the involved supervisor, inform the head of the IAIG and coordinate with other involved supervisors and the head of the IAIG to address.

The following procedures (#5 through #11) are outlined for the group-wide supervisor to utilize in assessing various elements of an IAIG's internal control framework, including specific functions, strategies, and policies. As many of these assessments and considerations are detailed in nature and may be more effectively assessed during group examination efforts at the IAIG, the analyst is generally encouraged to collaborate with and place reliance on the examination function in this area, where appropriate. In addition, the analyst should not duplicate efforts if these considerations are already addressed in other holding company analysis, corporate governance or ORSA review procedures.

**VI.C. Group-Wide Supervision – Insurance Holding Company System Analysis Guidance (Lead State)**

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5. Review the results of the most recent group examination efforts at the IAIG to understand the internal control assessment performed and determine if any follow-up is necessary to address concerns or recommendations.
  - a. Consider the extent to which the examination addressed controls and processes related to the outsourcing of critical functions including:
    - i. Policies and contractual requirements; due diligence prior to entering new outsourcing agreements; ongoing risk assessment and oversight of outsourced functions; and contingency plans for emergencies and service disruptions.
  - b. Consider whether any information received through annual filings, meetings with the group or changes noted in group operations since the last exam have the potential impact the group's ability to address:
    - i. Diversity and geographical reach of activities; intra-group transactions; interconnectedness of entities; and applicable laws and regulations of the jurisdictions in which the IAIG operates.
6. Review the results of the most recent group examination efforts at the IAIG to understand the compliance function assessment performed and determine if any follow-up is necessary to address concerns or recommendations.
  - a. Consider the extent to which the examination addressed the compliance function's ability to ensure compliance with relevant legislation and supervisory requirements applicable at both the group and material legal entity level.
  - b. Consider whether any information received through annual filings, meetings with the group or changes noted in group operations since the last exam have the potential impact the group's ability to maintain an effective compliance function.
7. Review the results of the most recent group examination efforts at the IAIG to understand the actuarial function assessment performed and determine if any follow-up is necessary to address concerns or recommendations.
  - a. Consider the extent to which the examination addressed the actuarial function's ability to provide oversight of the groups actuarial activities, functions and risks emanating from insurance legal entities within the IAIG including:
    - i. Policies and controls; actuarial concerns at the group or legal-entity level; current and prospective solvency position; adequacy of reinsurance arrangements; actuarial-related risk modelling in ORSA and use of internal models; coordination with legal entity actuarial functions; and providing independent advice and regular reporting to the IAIG Board or one of its committees.
  - b. Consider whether any information received through annual filings, meetings with the group or changes noted in group operations since the last exam have the potential impact the group's ability to maintain an effective actuarial function.
8. Review the results of the most recent group examination efforts at the IAIG to understand the internal audit function assessment performed and determine if any follow-up is necessary to address concerns or recommendations.
  - a. Consider the extent to which the examination addressed the internal audit function's ability to provide independent assessment and assurance regarding:
    - i. Policies, processes, and controls; preservation and protection of assets and prevention of fraud; reliability, integrity, and completeness of accounting, financial, management, IT,

**VI.C. Group-Wide Supervision – Insurance Holding Company System Analysis Guidance (Lead State)**

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and risk reporting information; capacity and adaptability of IT systems to provide accurate and timely information to the Board and Senior Management; and design and operational effectiveness of risk management and internal controls systems.

- b. Consider whether any information received through annual filings, meetings with the group or changes noted in group operations since the last exam have the potential impact the group's ability to maintain an effective internal audit function.

- 9. Review the results of the most recent group examination efforts at the IAIG to understand the review performed of the investment policy (or similar policies and practices) and determine if any follow-up is necessary to address concerns or recommendations.

- a. Consider the extent to which the examination addressed whether the investment policies and practices incorporate the following criteria:

- i. Guidelines/limits for investment quality; guidelines/limits to ensure proper diversification and mitigate asset concentration risk; a counterparty risk appetite statement to limit credit risk from a single counterparty; guidelines/limits for intra-group investments; tracking and monitoring of investments to ensure compliance with policies; guidelines to avoid placing undue reliance on assessments by credit rating agencies for investment selection and risk management process.

- b. Consider whether any information received through annual filings, meetings with the group or changes noted in group operations since the last exam have the potential impact the group's ability to maintain effective investment policies and practices.

- 10. Review the results of the most recent group examination efforts at the IAIG to understand the review performed of the claims management policy (or similar policies and practices) and determine if any follow-up is necessary to address concerns or recommendations.

- a. Consider the extent to which the examination addressed whether the claims management policies and practices incorporate the following criteria:

- i. Guidelines for claims estimation and settlement; feedback into the group's underwriting policy and reinsurance strategy; and claims data reporting for group analysis.

- b. Consider whether any information received through annual filings, meetings with the group or changes noted in group operations since the last exam have the potential impact the group's ability to maintain effective claims management policies and practices.

- 11. Review the results of the most recent group examination efforts at the IAIG to understand the review performed on the strategy for reinsurance and other forms of risk transfer and determine if any follow-up is necessary to address concerns or recommendations.

- a. Consider the extent to which the examination addressed whether the following issues are appropriately addressed:

- i. Interaction with the group's risk and capital management strategies; achievement of underwriting risk appetite, both gross and net; appetite for and practices in place to address reinsurer credit risk; policies and practices around legal entity reinsurance arrangements and group aggregation; procedures for managing reinsurance recoverables; intra-group reinsurance strategy and practices; use of alternative risk transfer; and effectiveness of risk transfer in adverse circumstances.

- b. Consider whether any information received through annual filings, meetings with the group or changes noted in group operations since the last exam have the potential impact the group's ability to maintain effective strategies for reinsurance and other forms of risk transfer.



**VI.C. Group-Wide Supervision – Insurance Holding Company System Analysis Guidance (Lead State)**

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**IAIG Procedures #1 and 2** assists the analyst in evaluating the impact of the group's complexity on the effectiveness of group supervision and the IAIG's governance processes. As many IAIGs have multiple levels of holding companies, various legal entities incorporated in various jurisdictions, and a significant number of shared-services and inter-connectedness, it is important for the analyst to consider the impact of this complexity on the group's risks and corporate governance activities.

**IAIG Procedure #3** assists the analyst in assessing the group-wide capital position of the IAIG, as well as any potential issues related to capital fungibility. The focus of this review should be utilizing information provided in the GCC and ORSA Summary Report to assess the IAIG's capital position. For additional guidance on utilizing information provided in the ORSA Summary Report and GCC to assess group capital, see supporting guidance and review procedures at VI.E, VI.F and VI.H. Also, when applicable, this procedure assists the analyst in understanding the ICS if calculated and provided by the IAIG or other reporting such as the Aggregation Method, during the ICS Monitoring Period. Understanding the group capital information reported to the IAIS can assist the analyst in communicating with international supervisors and participating in discussions on the ICS at supervisory college sessions (see additional guidance at VI.J). The IAIS' ICS Monitoring Period runs from 2020 through the end of 2024 and is intended to assess the effectiveness of the newly developed standard. A main objective of the Monitoring Period is to receive feedback from insurance regulators on the Reference ICS and, if applicable, feedback on additional reporting. During the Monitoring Period, the ICS is not designed for the purpose of supervisory intervention on the basis of capital adequacy. During the Monitoring Period, U.S. IAIGs may report an alternative group capital calculation to the IAIS known as the Aggregation Method, which is expected to be similar to the GCC. The Aggregation Method will be subject to a Comparability Assessment and by the end of 2024, will be deemed to produce, or not produce, comparable outcomes to the ICS. The NAIC supports the development of the Aggregation Method as an outcome-equivalent approach for implementation of the ICS.

**IAIG Procedure #4** assists the analyst in determining whether additional supervisory measures should be taken in response to risks or concerns identified during the holding company analysis for the IAIG. As the group-wide supervisor assumes responsibility for overseeing the overall solvency monitoring for the group, it is important that risks or issues requiring supervisory intervention are identified and addressed in a timely manner through coordination with other involved supervisors.

**IAIG Procedure #5** assists the analyst in coordinating with the examination function to evaluate control processes and functions. As discussed in procedures 1 and 2, the structure and complexity of an IAIG can lead to various challenges, including challenges in effectively organizing and coordinating control functions across holding companies, legal entities, and jurisdictions. However, as evaluation of control processes is generally performed during on-site examination efforts, the analyst should review and follow-up on relevant results of the most recent examination and consider whether any recent changes in group structure or strategy have impacted control functions.

**IAIG Procedure #6** assists the analyst in coordinating with the examination function to evaluate the compliance function and how it ensures compliance with regulatory requirements at both the group and legal entity level.

**IAIG Procedure #7** assists the analyst in in coordinating with the examination function to evaluate the actuarial function and its role in providing oversight of the group-wide actuarial activities, functions and risks emanating from insurance legal entities within the IAIG.

**IAIG Procedure #8** assists the analyst in coordinating with the examination function to evaluate the internal audit function and its role in providing independent assessment and assurance regarding internal controls, systems, and risk management practices.

**IAIG Procedure #9** assists the analyst in coordinating with the examination function to evaluate investment policies and practices, including whether they set criteria for investment quality and address the selection of, and exposure to, low-quality investments or investments whose security is difficult to assess.

**IAIG Procedure #10** assists the analyst in coordinating with the examination function to evaluate claims management policies and practices, including whether they include procedures for: claims estimation and

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**VI.C. Group-Wide Supervision – Insurance Holding Company System Analysis Guidance (Lead State)**

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settlement; feedback into the group's underwriting policy and reinsurance strategy; and claims data reporting for group analysis.

**IAIG Procedure #11** assists the analyst in coordinating with the examination function to evaluate the strategy for reinsurance and other forms of risk transfer, including whether the strategy is consistent with risk and capital management strategies, in line with underwriting risk appetites, and addresses credit risk with reinsurance counterparties.

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Detail Eliminated to Conserve Space

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## VI.D. Group-Wide Supervision – Corporate Governance Disclosure Procedures

**Special Note:** The following procedures do not supersede state regulation but are merely additional guidance an analyst may consider useful.

The *Corporate Governance Annual Disclosure Model Act (#305)* and *Corporate Governance Annual Disclosure Model Regulation (#306)* provide a summary of an insurer or insurance group's corporate governance structure, policies and practices to permit the Commissioner to gain and maintain an understanding of the insurer's corporate governance framework.

States should also consider completion of applicable questions within the Operational and Strategic risk repositories of this Handbook based upon the level of concern an analyst may have with management performance and the driving forces behind operations. ~~The risk repositories may also be used by an analyst of a state that has obtained the disclosure for an insurer or insurance group subject to the aforementioned corporate governance disclosure. However, analysts should avoid duplicate information requests.~~

## Introduction

Model #305 and #306 requires an insurer, or an insurance group, to file a summary of an insurer or insurance group's corporate governance structure, policies and practices with the commissioner by June 1 of each calendar year. Model #305 allows the information to be at the ultimate controlling parent level, an intermediate holding company level and/or the individual legal entity level, depending upon how the insurer or insurance group has structured its system of corporate governance. Because most corporate governance is driven at a controlling or intermediate holding company level, this guidance is contained within this section dealing with group supervision. ~~Although by inclusion in this sectionAs such,~~ reviewing the corporate governance disclosure of a group is a responsibility of the lead state, ~~the approach on this is different from that taken with the Own Risk Solvency and Analysis (ORSA). This is because it's common for most groups to have different layers of governance that is important in achieving the objectives of the group. More specifically, In addition to the role of the lead state, other analysts from participating states may also review corporate governance since it is common for most groups have some level of governance at the individual legal entity level. However, because it is common for legal entity governance to be a less significant aspect of the governance objectives, even those companies that incorporate governance at the individual legal entity level are likely to include materially less documentation on such, may instead summarize such processes and list those entities for which they exist.~~

### Non-Lead State Reliance on the Lead State Analysis of Corporate Governance Annual Disclosure:

Model #305 requires the filing to be made with the lead state; however, non-lead domestic states may request the CGAD filing from the insurer. Because the filing may be made on a group basis or legal entity basis, it may contain information that applies to all insurers within the group or it may contain information applicable to a specific legal entity.

It may be necessary or acceptable for the lead state to share its work papers with another state, related to such filing, provided such information is shared in accordance with the confidentiality provisions of Model #305. This is because similar to other solvency regulation models, Model #305 contemplates both off-site and on-site examination of such information. The Lead State can share the analysis of the filing through NAIC tools (i.e., iSite+ Regulator File Sharing System) or other means deemed appropriate. Before a non-lead state~~s~~ requests the CGAD filing or conducts a full review of CGAD to determine its impact on their domestic insurers, non-lead domestic states should consider obtaining and reviewing the Lead State's analysis of CGAD to reduce duplication of analysis efforts.

**To the extent the Lead State's analysis of the Corporate Governance Annual Disclosure (CGAD) addresses policies and practices of the group applicable to the non-lead state's domestic insurer, that analysis may be leveraged by the non-lead state to reduce the analysis work of the non-lead state.** If the Lead State's analysis of CGAD does not assess the impact on the non-lead state's domestic insurer or the CGAD is on a legal entity basis, the non-lead domestic state should consider a review of CGAD. Analysis steps are included in the non-Lead State analysis procedures.

**VI.D. Group-Wide Supervision – Corporate Governance Disclosure Procedures**

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**IAIG Considerations:**

While the considerations outlined in this chapter are generally applicable to all insurers/insurance groups (depending on the level at which the CGAD filing is made), there are some additional corporate governance assessment considerations applicable to U.S. based IAIGs on an annual basis that are incorporated into this section. It is the responsibility of the group-wide supervisor to ensure that the group meets minimum governance expectations at both the legal entity (for its domestic insurers) and head of the IAIG level. As such, the group-wide supervisor should request and review additional information from the head of the IAIG as necessary to complete this assessment, which may include requesting information similar to what is provided in a CGAD and/or additional information (e.g., biographical affidavits, conflict of interest statements) at the head of the IAIG level. In addition, the analyst should utilize other filings and resources already available to the department including holding company filings (i.e., Form B, Form F), ORSA and any other relevant information (e.g., SEC Proxy Statements, voluntary disclosures) to complete this assessment.

**PROCEDURES #1 - 2** assist analysts in reviewing the Corporate Governance disclosure for completeness and help guide analysts through each of the major items of information required by Model #306.

**PROCEDURES #3 - 5** assist analysts in summarizing any concerns relative to the insurer or insurance group's corporate governance and its impact.

**PROCEDURES #6 - 8** assist analysts in assessing the corporate governance practices of IAIGs on an annual basis.

**Compliance with Corporate Governance Disclosure Requirements**

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1. Does the disclosure provide information regarding the following areas as required by Model #306?
  - a. The insurer's or insurance group's corporate governance framework and structure including consideration of the following.
    - i. The Board and various committees thereof ultimately responsible for overseeing the insurer or insurance group and the level(s) at which that oversight occurs (e.g., ultimate control level, intermediate holding company, legal entity, etc.). The insurer or insurance group shall describe and discuss the rationale for the current Board size and structure; and
    - ii. The duties of the Board and each of its significant committees and how they are governed (e.g., bylaws, charters, informal mandates, etc.), as well as how the Board's leadership is structured, including a discussion of the roles of Chief Executive Officer (CEO) and Chair of the Board within the organization.
  - b. The policies and practices of the most senior governing entity and significant committees thereof, including a discussion of the following factors:
    - i. How the qualifications, expertise and experience of each Board member meet the needs of the insurer or insurance group.
    - ii. How an appropriate amount of independence is maintained on the Board and its significant committees.
    - iii. The number of meetings held by the Board and its significant committees over the past year as well as information on director attendance.
    - iv. How the insurer or insurance group identifies, nominates and elects members to the Board and its committees. The discussion should include, for example:
      1. Whether a nomination committee is in place to identify and select individuals for consideration.

**VI.D. Group-Wide Supervision – Corporate Governance Disclosure Procedures**

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2. Whether term limits are placed on directors.
3. How the election and re-election processes function.
4. Whether a Board diversity policy is in place and if so, how it functions.
- v. The processes in place for the Board to evaluate its performance and the performance of its committees, as well as any recent measures taken to improve performance (including any Board or committee training programs that have been put in place).
- c. The policies and practices for directing senior management, including a description of the following factors:
  - i. Any processes or practices (i.e., suitability standards) to determine whether officers and key persons in control functions have the appropriate background, experience and integrity to fulfill their prospective roles, including:
    1. Identification of the specific positions for which suitability standards have been developed and a description of the standards employed.
    2. Any changes in an officer's or key person's suitability as outlined by the insurer's or insurance group's standards and procedures to monitor and evaluate such changes.
  - ii. The insurer's or insurance group's code of business conduct and ethics, the discussion of which considers, for example:
    1. Compliance with laws, rules, and regulations.
    2. Proactive reporting of any illegal or unethical behavior.<sup>1</sup>
  - iii. The insurer's or insurance group's processes for performance evaluation, compensation and corrective action to ensure effective senior management throughout the organization, including a description of the general objectives of significant compensation programs and what the programs are designed to reward. The description shall include sufficient detail to allow the Commissioner to understand how the organization ensures that compensation programs do not encourage and/or reward excessive risk-taking. Elements to be discussed may include, for example:
    1. The Board's role in overseeing management compensation programs and practices.
    2. The various elements of compensation awarded in the insurer's or insurance group's compensation programs and how the insurer or insurance group determines and calculates the amount of each element of compensation paid.
    3. How compensation programs are related to both company and individual performance over time.
    4. Whether compensation programs include risk adjustments and how those adjustments are incorporated into the programs for employees at different levels.
    5. Any "clawback" provisions built into the programs to recover awards or payments if the performance measures upon which they are based are restated or otherwise adjusted.
    6. Any other factors relevant in understanding how the insurer or insurance group monitors its compensation policies to determine whether its risk- management objectives are met by incentivizing its employees.
  - iv. The insurer's or insurance group's plans for CEO and senior management succession.

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<sup>1</sup> See additional discussion of conflicts of interest, which could be covered in this section of the CGAD, under Assessment of IAIG Corporate Governance Assessment below.

**VI.D. Group-Wide Supervision – Corporate Governance Disclosure Procedures**

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- d. The insurer or insurance group shall describe the processes by which the Board, its committees and senior management ensure an appropriate amount of oversight to the critical risk areas impacting the insurer's business activities, including a discussion of:
  - i. How oversight and management responsibilities are delegated between the Board, its committees and senior management;
  - ii. How the Board is kept informed of the insurer's strategic plans, the associated risks, and steps that senior management is taking to monitor and manage those risks;
  - iii. How reporting responsibilities are organized for each critical risk area. The description should allow the commissioner to understand the frequency at which information on each critical risk area is reported to and reviewed by senior management and the Board. This description may include, for example, the following critical risk areas of the insurer:
    1. Risk management processes (an ORSA Summary Report filer may refer to its ORSA Summary Report pursuant to the *Risk Management and Own Risk and Solvency Assessment Model Act (Model #505)*);
    2. Actuarial function
    3. Investment decision-making processes
    4. Reinsurance decision-making processes
    5. Business strategy/finance decision-making processes
    6. Compliance function
    7. Financial reporting/internal auditing
    8. Market conduct decision-making processes
2. If the insurer or insurance group has not disclosed specific information listed in Procedure 1 above, was other information included that adequately describes why such information was not included?

**Assessment of Corporate Governance Disclosure**

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3. Is the analyst aware of any significant and material corporate governance information not reported in the disclosure? If "yes," refer to the Management Considerations section of IV.A. Financial Analysis and Reporting Considerations for additional guidance.
4. Based on the analyst's review of Corporate Governance disclosure and any additional information related to the corporate governance of the insurer or insurance group, document any material concerns regarding corporate governance of the insurer or insurance group.
5. Do any of the concerns pose an immediate risk to the insurer's or insurance group's operations, policyholder surplus or capital position?

**Assessment of U.S. Based IAIG Corporate Governance**

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6. Based on the analyst's review of the CGAD and any additional information received (e.g., biographical affidavits, conflict of interest statements), document any material concerns related to the individual and collective suitability of Board Members, Senior Management and Key Persons in Control Functions at the IAIG.
  - a. In reviewing the information received and assessing suitability, consider whether the IAIG Board has the necessary information and processes in place to understand group-wide corporate governance framework and corporate structure; activities of the legal entities and associated risks; supervisory

**VI.D. Group-Wide Supervision – Corporate Governance Disclosure Procedures**

regimes applicable to the IAIG; issues that arise from cross-border business and international transactions; and the risk management, compliance, audit, actuarial and related areas of the group.

b. In reviewing the information received, consider whether the group-wide corporate governance framework includes policies and processes to identify and avoid, or manage, conflicts of interest that may adversely affect the IAIG as a whole or any of its legal entities.

7. Based on the analyst's review of the CGAD and any additional information received, document any material concerns related to the appropriateness of the corporate governance framework given the structure, business, and risks of the IAIG including the risks of its legal entities, and the reporting lines in place between the material legal entities and the head of the IAIG.

a. Consider what role or influence the head of the IAIG plays in setting corporate governance expectations at the legal entity level, including establishing the "tone at the top".

8. Based on the analyst's review of the CGAD and any additional information received, document any material concerns related to whether the IAIG's group-wide governance structure promotes effective oversight of the group-wide operations independent of day-to-day management.

**For the U.S. lead state:**

- ☐ Analysts should update the Group Profile Summary and Supervisory Plan with any material information.
- ☐ Analysts should communicate to the examiner-in-charge (EIC) any prospective risks identified in the review of corporate governance disclosure that affects the domestic insurer. In addition, analysts should share information or open items related to group-wide corporate governance assessments with the EIC to facilitate effective review and follow-up of the analysis during onsite exam activities.

**Recommendations for further action, if any, based on the overall conclusion above:**

For the U.S. lead state that is also the group-wide supervisor:

- ☐ Contact the holding company seeking explanations or additional information
- ☐ Meet with the holding company management
- ☐ Suggest assessment or follow-up procedures to be completed during the next examination
- ☐ Pursue, as appropriate, within an international supervisory college
- ☐ Other (explain)

For the U.S. lead state that is not the group-wide supervisor:

- ☐ Contact the group-wide supervisor, seeking explanations or additional information
- ☐ Pursue, if applicable and as appropriate, within an international supervisory college
- ☐ Other (explain)

For a non-lead state:

- ☐ Contact the lead state, seeking explanations or additional information
- ☐ Pursue, if applicable and as appropriate, within an international supervisory college (if applicable)

Analyst:	Date:
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**VI.D. Group-Wide Supervision – Corporate Governance Disclosure Procedures**

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Supervisor Review:	Date:
Supervisor Comments:	



VI.E. Group-Wide Supervision – Enterprise Risk Management Process Risks Guidance

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Detail Eliminated to Conserve Space

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**U.S. Based IAIG Risk Management Assessment Considerations**

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While the considerations covered in this chapter are generally applicable to all insurers/insurance groups filing an ORSA Summary Report, there are additional risk management assessment considerations for the supervision of Internationally Active Insurance Groups (IAIGs) that are outlined in the ORSA Guidance Manual. As such, U.S. lead states functioning as group-wide supervisors should document their assessment of the specific IAIG risk management practices as highlighted in **Appendix C** of the template. If such practices are already assessed and documented in the general review template, the documentation provided in this appendix can so state and cross-reference to where those practices are covered.

To complete the IAIG assessment, the group-wide supervisor may need to request and review additional information from the head of the IAIG, which could include an ORSA Summary Report, Corporate Governance Annual Disclosure (CGAD) and/or additional information on risk management practices at the head of the IAIG level. The group-wide supervisor should utilize other filings and resources already available to the department including holding company filings (i.e., Form B, Form F) and public information sources before requesting additional information to complete the assessment.

In completing the assessment, the group-wide supervisor should consider whether certain elements are more appropriately assessed and addressed as necessary during an on-site examination and coordinate with the examination function. In addition, the analysis function should follow-up on findings from the previous examination, as well as identify and assess significant changes in operations and risk management functions at the head of the IAIG since the last examination, as appropriate.

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Detail Eliminated to Conserve Space

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## VI.F. Group-Wide Supervision – Own Risk and Solvency Assessment (ORSA) Review Template

## Detail Eliminated to Conserve Space

**Appendix C – U.S. Based IAIG Risk Management Assessment Considerations**

While the considerations provided in this template are generally applicable to all insurers/insurance groups filing an ORSA Summary Report, there are additional risk management assessment considerations for the supervision of Internationally Active Insurance Groups (IAIGs) that have been incorporated into this template. As such, U.S. lead states functioning as group-wide supervisors should document their assessment of specific IAIG risk management practices here, if not already addressed above.

1. Based on the analyst's review of the ORSA Summary Report and any additional information received, assess whether the head of the IAIG ensures that the risk management strategy and framework (whether located at the Head of the IAIG or within another legal entity of the IAIG) encompasses the levels of the head of the IAIG and legal entities within the IAIG, promotes a sound risk culture, and covers:

- diversity and geographical reach of activities;
- nature and degree of risks in entities/business lines;
- aggregation of risks across entities within the IAIG;
- interconnectedness of entities within the IAIG; level of sophistication and functionality of IT/reporting systems at the group level; and
- applicable laws and regulations.

**Commented [PE1]:** Added in response to ACLI comment

2. Assess whether the risk management strategy is approved by the IAIG Board and implemented at the group level; with regular risk management reporting provided to the IAIG Board or one of its committees.

3. Assess whether the risk management function, the actuarial function and the internal audit function are involved in the risk management of the IAIG and which activities they perform.

4. Assess whether the risk management function coordinates and promotes consistent implementation of risk management practices at the group and legal entity level, with any material differences in practices across the group being clearly documented and explained.

**Commented [PE2]:** Within the IAIG clarification added in response to ACLI comment

5. Assess whether the risk management function is adequately independent from risk taking activities.

6. Assess whether the head of the IAIG reviews, at least annually, the risk management framework to ensure that existing and emerging risks as well as changes in structure and business strategy are taken into account.

**Commented [PE3]:** Edits made in response to Travelers comment

## VI.F. Group-Wide Supervision – Own Risk and Solvency Assessment (ORSA) Review Template

- Assess whether the group-wide risk assessment framework, or components thereof, is independently reviewed<sup>1</sup> at least once every three years, in order to ascertain that it remains fit for the risk profile, structure and business strategy of the IAIG.
- Assess whether necessary modifications and improvements are made to risk management framework in a timely manner.

7. Assess whether the following key elements are appropriately incorporated and addressed within the IAIG's ORSA framework:

- The ORSA should describe how risks are managed in a cross-border context across the IAIG. These risks should include at least: insurance risk, market risk, credit risk, liquidity risk, concentration risk, operational risk, group risk and strategic risk. The ORSA should also explain how assets are properly diversified and asset concentration risk is mitigated across the IAIG.
- Mechanisms to keep track of intra-group transactions that have a significant impact on the IAIG, the risks arising from these transactions and the qualitative and quantitative restrictions on these risks.
- The ORSA framework measures risks using an economic capital model that takes into account the risks faced in different sectors, jurisdictions and economic environments
- The ORSA shows both the economic and the regulatory capital at the Head of the IAIG level and it includes a discussion of the fungibility of capital and the transferability of asset within the group
- Risk measurement includes stress testing, including reverse stress testing and scenario analysis, as appropriate for its risk profile
- Risk measurement demonstrates resilience of the total balance sheet against plausible macroeconomic stresses
- Risk measurement also includes an assessment of aggregate investment counterparty exposures and analyzes the effect of stress events on those exposures through scenario analysis or stress testing
- The ORSA reports on the IAIG's management of liquidity risks and assesses its resilience against severe but plausible liquidity stresses to determine whether current exposures are within the liquidity risk appetite and limits
  - The ORSA demonstrates that the IAIG maintains an adequate level of unencumbered highly liquid assets in appropriate locations, as well as a contingency funding plan to mitigate potential stresses
- The ORSA discusses at a high-level the severe stresses that could trigger a recovery plan and should summarize the recovery options available. The ORSA should also discuss how the

**Commented [PE4]:** Split into a separate bullet point in response to ACLI comment

**Commented [PE5]:** Language modified in response to Traveler's ORSA comment.

<sup>1</sup> Independent review could be performed by internal audit function, if deemed independent from risk management functions of the group

**VI.F. Group-Wide Supervision – Own Risk and Solvency Assessment (ORSA) Review Template**

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management information systems are able to produce information relevant to the recovery plan on a timely basis.

**VI.I. Group-Wide Supervision – Targeted Examination Procedures and Guidance**

**Special Note:** The following procedures do not supersede state regulation but are merely additional guidance an analyst may consider useful.

The following provides examples of potential risk areas where the lead state or group-wide supervisor (for IAIGs) may want to perform certain limited examination procedures as part of the continual risk assessment process. However, analysts should be aware that in some years, it is highly possible that no risks or changes in risks rise to the level of requiring a specific targeted examination. In addition, certain risks and examination procedures may not be deemed urgent enough to warrant a targeted or limited-scope examination and could therefore be deferred until the next scheduled examination of the group.

The general purpose of a targeted on-site examination is to focus resources on a particular risk. Such procedures would generally be driven by any change in risks or any weaknesses or concerns. Performing such procedures through an on-site inspection can provide assurances that cannot be provided through off-site monitoring. In some cases, such procedures will focus on collecting information that will provide assurances that the risks that have been portrayed by the group can be relied upon. On-site examinations can also be more effective in understanding the risks of a group that are not easily understood with a regulatory filing, be it through a physical inspection of the group's process or through inspection of supporting documentation. The following provides examples of different risk areas where such assurances can be provided through tailored procedures. However, these are only examples and, again, what should be considered more than anything is the risk or changes in risk of the group and the assurances that can be provided through such an on-site inspection relative to such risks.

**Prospective Risks (See Exhibit V – Overarching Prospective Risk Assessment of the Financial Condition Examiners Handbook for a more detailed listing of examples.)**

1. New products, or recently developed products that have become more material or that create unique risks to the group. Consider reviewing the process to develop and price the product, as well as monitor its results compared to pricing.
2. New investment vehicle either recently acquired or that recently became more material to the portfolio. Consider reviewing the process by which the investment vehicle became available, the diligence performed to consider its risks, and the process to monitor its results before more monies are invested into the strategy.
3. Risk arising from the group's governance- (See Section VI.D. Corporate Governance Disclosures Procedures for a detail of such procedures) or risk management process (see Section VI.E. Enterprise Risk Management Process Risks Guidance for a detail of procedures to apply to groups submitting an Own Risk and Solvency Assessment (ORSA)).

**Information Obtained from Filings, etc.**

4. Information that supports representations regarding significant investors' expectations.
5. Current and historical consolidating financial statements used to validate information obtained regarding non-insurers.
6. Internal management reports that provide product detail on operations that, when accumulated are supported in total by audited statements.
7. Supporting documentation of internal and external equity target levels, including information from rating agencies, banks or other lenders.
8. Copy of the most recent liquidity strategy and walkthrough of daily monitoring process.
9. Copy of the most recent investment strategy and walkthrough of recent acquisitions or sales made in connection with strategy.

**VI.I. Group-Wide Supervision – Targeted Examination Procedures and Guidance**

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10. Documentation supporting risk management strategy as presented to internal risk committee or board of directors.
11. Copy of group derivatives use plan and walkthrough of daily monitoring process.
12. Copy of debt covenants and internal quarterly calculations.
13. Copy and walkthrough of projected future capital management plans.
14. Copy of any due diligence work performed on potential acquisition and key metrics for the board's consideration.

**IAIG Considerations (see additional discussion in FCEH Section 1.I.F)**

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15. Risks arising from the holding company's status as an IAIG, including evaluations of the head of the IAIG's corporate governance (See Section VI.D. Corporate Governance Disclosure Procedures), risk management (see Section VI.E. Enterprise Risk Management Process Risks Guidance) and/or internal control (see Section VI.C Insurance Holding Company System Analysis Guidance) frameworks.

**Summary and Conclusion**

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- ☐ Develop and document an overall summary and conclusion regarding the targeted examination.
- ☐ Analysts should update the Insurance Holding Company System Analysis and Supervisory Plan in the Group Profile Summary.

## VI.J. Group-Wide Supervision – Supervisory Colleges Guidance

**Special Note:** The following procedures do not supersede state regulation but are intended to provide guidance and best practices for Supervisory Colleges; but also, to identify some specific minimum procedures to be used by all U.S. lead states and/or group wide supervisors when leading a Supervisory College.

As a lead state reviews this section, it should be well understood that in those holding company structures where the lead state is not the group wide supervisor (e.g., with groups based outside of the U.S. or where the Federal Reserve is the group wide supervisor), and in accordance with accreditation standards, lead states may choose to rely on the analysis work performed by international insurance supervisors or another functional regulator (e.g., the Federal Reserve). However, if such reliance takes place, the lead state is still responsible for documenting and distributing to other domestic states an analysis of the overall financial condition of the group, significant events, and any material strengths and weaknesses of the holding company group. Additionally, if the lead state has material concerns with respect to the overall financial condition of the holding company group, they are responsible for notifying all other domestic states. This specific note relates more specific to holding company analysis, but to the extent that the lead state utilizes any work documented from the Supervisory College, that this same principle should be applied to such work.

## Overview

### Background Information

In 2009 the Group Solvency Issues (E) Working Group (the working group) of the Solvency Modernization Initiative (E) Task Force endorsed as guidance the IAIS *Guidance Paper on the Use of Supervisory Colleges in Group Wide Supervision* [October 2009] (the IAIS guidance paper). The working group supported the IAIS guidance paper in part because it recognizes the need for flexibility in the design, membership and establishment of Supervisory Colleges in accommodating the organizational structure, nature, scale and complexity of the group risks, and the level of international activity and interconnectivity within the group. The IAIS guidance paper discusses factors to consider in the implementation of a Supervisory College framework, including its form and membership, the role and possible functions of a Supervisory College, and the interrelationship between a designated group wide supervisor and the Supervisory College.

Additionally, IAIS document literature indicates that a Supervisory College is a mechanism that intends to foster cooperation, promote common understanding, communication and information exchange, and facilitate coordination for group-wide supervision. The IAIS has also documented that potential benefits of Supervisory Colleges include:

- ❑ Improving all the relevant regulators' understanding of the group and its risks
- ❑ Building relationships between relevant regulators, sharing regulatory approaches, and promoting cooperation and consensus
- ❑ Interacting more effectively with a group's management to gain insights into the group and to reinforce regulatory messages

### International Expectations

As the business of insurance has expanded globally, insurance regulators worldwide have determined that increased levels of communication, coordination and cooperation among regulators at Supervisory Colleges is vital to understanding risk trends that could adversely impact policyholder protection and solvency oversight in an increasing global insurance market. As a result, the overall objective is to further information exchange, cooperation and coordination amongst relevant regulators as a key component for enhancing the supervision of cross-border financial institutions.<sup>i</sup>

<sup>i</sup> The statement from the G-20 Summit on Financial Markets and the World Economy, held in Washington, DC, in November 2008, states the following: "Supervisors should collaborate to establish Supervisory Colleges for all major cross-border financial institutions, as part of efforts to strengthen the surveillance of cross-border firms."

## VI.J. Group-Wide Supervision – Supervisory Colleges Guidance

In April 2008, the Financial Stability Forum (now known as the Financial Stability Board FSB) issued a report to the G7 Finance Ministers and Central Bank Governors setting out a comprehensive set of recommendations for strengthening the global financial system. One key recommendation therein was the operationalization and expanded use of Supervisory Colleges for certain global financial institutions.<sup>ii</sup>

The International Monetary Fund (IMF) through its Financial Sector Assessment Program (FSAP) is assessing whether jurisdictions have enhanced regulatory cooperation and coordination through the development of Supervisory Colleges. The IMF 2010 FSAP of the U.S. financial sector made several recommendations for the insurance sector relating to this issue, stating that, “the U.S. should ensure that colleges of supervisors for the U.S. groups with major international operations are established and functioning effectively—and led by U.S. regulators with appropriate insurance expertise.” The FSAP, relating to the insurance sector, assesses U.S. compliance with the Insurance Core Principles (ICPs) of the IAIS. The NAIC’s Solvency Modernization Initiative (SMI) was put in place in 2008 and represents a critical self examination of the U.S.’ insurance solvency regulation framework and includes a review of international developments regarding insurance supervision, banking supervision, and international accounting standards and their potential use in U.S. insurance regulation. In this regard, state regulators have considered what international approaches are appropriate for the U.S. system by including aspects of ICP 23 Group wide Supervision, and ICP 25 Supervisory Cooperation and Coordination.

Regarding the role and duties of the group wide supervisor, the primary role of the group wide supervisor is to facilitate coordination and communication between regulators. State insurance regulators recognize that the legal framework with regard to the role of the group wide supervisor differs sometimes significantly from one jurisdiction to another and, therefore, the role of a group wide supervisor within a Supervisory College will depend on the jurisdictions involved and should be specifically outlined at the outset to meet the expectations of the members of the Supervisory College. The working group’s support for the IAIS guidance paper can also be attributed to the fact that Supervisory Colleges by definition are consistent with state insurance regulators view regarding group supervision. In the U.S., the *Insurance Holding Company System Regulatory Act* (#440) provides a more specified approach to be used when determining a group wide supervisor, which is also consistent with the approach discussed in this Handbook. the commissioner the authority to participate in a Supervisory College for any domestic insurer that is part of an insurance holding company system with international operations. The powers of the commissioner with respect to supervisory colleges include, but are not limited to, the following:

- Initiating the establishment of a Supervisory College;
- Clarifying the membership and participation of other supervisors in the Supervisory College;
- Clarifying the functions of the Supervisory College and the role of other regulators, including the establishment of a group-wide supervisor;
- Coordinating the ongoing activities of the Supervisory College, including planning meetings, supervisory activities, and processes for information sharing; and
- Establishing a crisis management plan.

In addition to U.S. guidance, the International Association of Insurance Supervisors (IAIS) has developed guidance for regulators in conducting and participating in supervisory colleges, which are primarily presented in Insurance Core Principle (ICP) 25 – Supervisory Cooperation and Communication, as well as additional considerations and best practices in the IAIS’ Application Paper on Supervisory Colleges<sup>iii</sup>. Information from these

<sup>ii</sup> “Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience,” Financial Stability Forum, April 2008.

<sup>iii</sup> Located on the IAIS website: <https://www.iaisweb.org/home>



## VI.J. Group-Wide Supervision – Supervisory Colleges Guidance

sources has been utilized in developing this chapter and regulators are encouraged to reference the source documents as necessary to gather additional insight. However, IAIS materials are not deemed authoritative and should not be viewed as official NAIC guidance if they are not directly incorporated into this chapter.

The various ICPs include standards and guidance with respect to Group Wide Supervision. The following summarizes one of those key concepts:

- At a minimum, the group-wide supervision framework includes, as a supplement to legal entity supervision, extension of legal entity requirements, as applicable according to the relevant ICPs, on:
  - Solvency assessment (group wide solvency)
  - Governance, risk management and internal controls (group wide governance)
  - Market conduct (group wide market conduct)

As it relates to the above and any following references to the ICPs and their standards and guidance, this should not be read as a requirement for states, but rather should be used by the state to understand the expectation that other jurisdictions may have on a lead state serving as a group wide supervisor.

**ICP 25-Supervisory Cooperation and Communication** provides among other things, the following guidance related to supervisory colleges that is hereby incorporated into this chapter:

- “At present, it is not generally possible to consider or establish international legislation which grants legal power and authority to a group wide supervisor across jurisdictional borders. It is important, therefore, that there are clear agreements (formal or otherwise) between all involved supervisors in order to allow the group wide supervisor to fulfill its tasks and to ensure support from involved supervisors.”
  - “Involved supervisors determine the need for a group wide supervisor and agree on which supervisor will take on that role (including a situation where a Supervisory College is established).” Supervisors of the different insurance legal entities within an insurance group with cross-border activities should coordinate and cooperate in the supervision of the insurance group as a whole.”
  - “Supervisors may draw upon several supervisory practices to facilitate cross-border cooperation and coordination. These practices include the identification of a group-wide supervisor and the use of coordination arrangements, including supervisory colleges.”
  - “The procedures for systematic or ad hoc information exchange should be agreed with the other involved supervisors. The sharing of information by the group-wide supervisor and the other involved supervisors should be subject to confidentiality requirements.”
  - “Once identified, the group-wide supervisor should be responsible for coordinating the input of insurance legal entity supervisors in undertaking group-wide supervision as a supplement to the existing insurance legal entity supervision. Responsibilities of the group-wide supervisor should include chairing of the supervisory college (where one exists), or consider establishing one if not in place yet.”
  - “The group-wide supervisor, in cooperation and coordination with other involved supervisors, should consider establishing a supervisory college where, for instance: the nature, scale and complexity of the cross-border activities or intra-group transactions are significant and associated risks are high; group activities or their cessation could have an impact on the overall stability of the insurance markets in which the insurer operates; and the insurance group has significant market share in more than one jurisdiction.
- “The designated group wide supervisor takes responsibility for initiating discussions on suitable coordination arrangements, including establishing a Supervisory College, and acts as the key coordinator or chairman of the Supervisory College, where it is established.”

## VI.J. Group-Wide Supervision – Supervisory Colleges Guidance

- ~~“The designated group-wide supervisor establishes the key functions of the Supervisory College and other coordination mechanisms.”~~
- ~~“The group-wide supervisor takes steps to put in place adequate sets out the coordination arrangements in a written coordination agreement and puts such arrangements in place with involved supervisors on cross-border issues on a legal entity and a group-wide basis in order to facilitate the comprehensive oversight of these legal entities and groups. Insurance supervisors cooperate and coordinate with relevant supervisors from other sectors, as well as with central banks and government ministries.”~~
- ~~“A written coordination agreements should cover activities including include establishing effective procedures for: information flows between involved supervisors; communication with the head of the group; convening periodic meetings of involved supervisors; and conduct of a comprehensive assessment of the group, including the objectives and process used for such an assessment; and supervisory cooperation during a crisis.”~~
- ~~“The designated group-wide supervisor understands the structure and operations of the group. Other involved supervisors understand the structure and operations of parts of the group at least to the extent of how operations in their jurisdictions could be affected and how operations in their jurisdictions may affect the group.”~~
- ~~“The designated group-wide supervisor takes the appropriate lead in carrying out the responsibilities for group-wide supervision. A group-wide supervisor takes into account the assessment made by the legal entity supervisors as far as relevant.”~~

## Structure

The guidance contained in this and the following sections apply generally to all supervisory colleges of insurance groups involving foreign jurisdictions. Additionally, colleges for insurance groups that meet the IAIG criteria are subject to additional expectations that are separately outlined towards the end of the chapter.

**Determination of the Group-Wide Supervisor**

The IAIS ICPs also contain the following guidance regarding determination of the group-wide supervisor. This is not meant to be read as a requirement for states, but rather should be used by the state to understand the expectation that other jurisdictions may have on a lead state serving as a group-wide supervisor.

- ~~“In principle the supervisor in the jurisdiction where the group is based and where that supervisor has the statutory responsibility to supervise the head of the group should be first considered to take the role of the group-wide supervisor.”~~
- ~~“The location of the group's head office, given that this is where the group's Board and Senior Management is most likely to meet, and ready access of the group-wide supervisor to the group's Board and Senior Management is an important factor.”~~
- ~~“Where the registered head office is not the operational head of the group, the location where the main business activities of the group are undertaken; and/or main business decisions are taken; and/or main risks are underwritten; and/or group has its largest balance sheet total.”~~

In addition to the above, other criteria to consider include where the group has the most substantial insurance operations, the origin of the insurance business and regulatory resources available for serving as the group-wide supervisor. Once there is some clear distinction, to the extent the criterion suggests it's a state insurance regulator, discussion with the insurance group should take place and the state insurance regulator should consider establishing the first Supervisory College. In general, once the group-wide supervisor is determined, it generally should not be changed, unless there is a material change in the group's business or operations that were considered in originally determining the group-wide supervisor. As previously noted, in the U.S., Model

## VI.J. Group-Wide Supervision – Supervisory Colleges Guidance

~~#440 provides a more specified approach to be used when determining a group wide supervisor for an internationally active insurance group as defined within that model, but the approach in that model is consistent with the approach discussed in this Handbook to be used in determining the lead state for a group. Note however that few jurisdictions have adopted the specific section being referred to as of date of this publication. The following excerpt from Model #440 provides the specifics for those that have an interest (analysts should refer to the entire Model #440 to better understand the entire context for the following):~~

~~The commissioner shall consider the following factors when making a determination or acknowledgment under this subsection:~~

- ~~1. The place of domicile of the insurers within the internationally active insurance group that hold the largest share of the group's written premiums, assets or liabilities;~~
- ~~2. The place of domicile of the top tiered insurer(s) in the insurance holding company system of the internationally active insurance group;~~
- ~~3. The location of the executive offices or largest operational offices of the internationally active insurance group;~~
- ~~4. Whether another regulatory official is acting or is seeking to act as the group wide supervisor under a regulatory system that the commissioner determines to be;~~
- ~~5. Substantially similar to the system of regulation provided under the laws of this state, or~~
- ~~6. Otherwise sufficient in terms of providing for group wide supervision, enterprise risk analysis, and cooperation with other regulatory officials; and~~
- ~~7. Whether another regulatory official acting or seeking to act as the group wide supervisor provides the commissioner with reasonably reciprocal recognition and cooperation.~~

Commented [BEJ1]: Now addressed in VI.B

### Organizational Procedures Performed Before Conducting a Supervisory College

~~The information included in ICP 25 and the application paper show some of the key considerations of organizing a Supervisory College before the college meets for the first time. Although there is no international legislation that provides that the group-wide supervisor has any authority over the sovereign authority of the jurisdiction, insurance regulators across the world have agreed that having one group-wide supervisor that is responsible for coordination and communication among supervisors within the group strengthens the global insurance regulatory system. The international criterion for determining a group wide supervisor and similar expectations internationally does not materially differ from the criteria contained within Model #440 and this Handbook for determining the Lead State. Various information from the IAIS guidance paper is discussed throughout this document.~~

### Supervisory College Membership

Supervisory College members are generally the states/jurisdictions where the largest insurance entities within a group are domiciled, premium underwritten and key corporate decision-makers in the organization are located. However, also worth considering is the materiality that the group has for a particular jurisdiction. The group-wide supervisor or U.S. Lead State should consider who the appropriate invitees to the college should be; recognizing that determining the materiality of a group to a particular jurisdiction may be difficult. Ultimately, it is the responsibility of the group-wide supervisor, in cooperation with other involved supervisors, to determine which jurisdictions participate in the college and to review membership on a regular basis to reflect changing circumstances in the insurance group.

While there is a need to include as many members as possible, it must be balanced with the need to maintain a manageable, operational Supervisory College. In this regard, it may be appropriate to establish a tiered membership approach. This approach suggests that regulators that attend a Supervisory College be referred to as "Tier 1 or Tier 2" jurisdiction. If jurisdictions that have primary authority (e.g., state/country of domicile) for

**VI.J. Group-Wide Supervision – Supervisory Colleges Guidance**

insurers that have direct or gross premium greater than 5 percent of the entire group it may be appropriate for this tier 1 cutoff. The state insurance regulator should also consider requesting feedback from the insurance group regarding who it believes should be included in the “Tier 1,” because they will have more specific data on the premiums written in each jurisdiction. In most cases, this type of approach will limit the number of jurisdictions involved. However, it may also be appropriate to place a limit on the total number of individuals participating from each jurisdiction. Some state insurance regulators suggest a maximum of 75 regulators attending a Supervisory College and believe that 50 is a more manageable number to maximize the effectiveness of the college.

In some cases, trying to maintain a specific size may result in some smaller jurisdictions that may be small to the group, but whose market is materially impacted by the group, being excluded from the actual college meeting. However, the group-wide supervisor must determine a means for such jurisdictions to be involved with the college through other means (e.g., follow up correspondence with all jurisdictions after a college meeting has taken place which could include the use of different secure IT tools).

States that are group-wide supervisors should consider developing, or requesting the group to develop, a map of ~~the~~ all of the entities within the group and the corresponding jurisdiction for each entity. This mapping can be further enhanced by providing additional information that identifies the actual primary contact for each jurisdiction, as well as other participants from the same jurisdiction, and various contact information. When developing such a list, it ~~is~~ important to consider branches or other aspects of the group that may not be included on an organizational chart. All of this information should be kept up to date at all times, and made available through correspondence to all college members, and may be more easily distributed through a secure IT tool.

The use of such tools is becoming more common, and in addition to requiring confidentiality of data and controls around the sharing and updating of information, they must also allow for the permanent storage of data and they must be efficient to administer. Similar issues may exist as it pertains to other forms of communication, such as conference calls.

**Coordination and Information-Sharing Agreements**

One of the most critical, ~~and often one of the most time consuming~~ and lengthy tasks undertaken by the group-wide supervisor is drafting, distributing and obtaining executed coordination and information sharing agreements from the participating supervisory college membership. U.S. Group Wide Supervisors have experienced significant delays in getting information sharing agreements drafted and completed with college members, which can span a period of months. Therefore, sufficient lead time is absolutely critical to ensuring that all agreements are obtained prior to the distribution of any materials for the college meeting. Consequently, this activity should be initiated at the outset of planning and organizing a supervisory college.

A written coordination agreement should cover activities including:

- Information flows between involved supervisors
- Communication with the head of the group
- Convening periodic meetings of involved supervisors
- The conduct of a comprehensive assessment of the group, including the objectives and process used for such an assessment
- Supervisory cooperation during a crisis

In addition, the coordination agreement may also include information on membership of the college, the process for appointing a supervisor to chair, roles and functions of the college and its members, frequency and location of meetings, and the scope of activities of the college.

## VI.J. Group-Wide Supervision – Supervisory Colleges Guidance

The group-wide supervisor is responsible for the regulatory information collected by the Supervisory College and any notifications that should be made to it (from supervisors and the group). The Supervisory College should agree to the frequency of which information is provided and any information gathering should be coordinated in a way so as to avoid duplicative requests and to reduce the burden on a group. State insurance regulators should understand the difficulty and the amount of time it may take to get these agreements in place. This difficulty can lead to significant delays in beginning a new Supervisory College; therefore, state insurance regulators should take action to complete these coordination and information sharing agreements as soon as possible. The group-wide supervisor must recognize however that such agreement is needed not only for college meetings, but also correspondence that may be made available to all college members (sometimes a wider group than the jurisdictions attending the meetings) subsequent to a meeting.

A written information-sharing and confidentiality agreement between the involved supervisors must be agreed upon and entered into by all parties wishing to participate prior to participating in the Supervisory College, which may be covered through a broader coordination agreement. This information sharing and confidentiality agreement can be achieved in various ways, such as: 1) through bilateral memorandums of understanding (MoUs) among all of the jurisdictions involved; 2) through a Supervisory College-specific agreement; or 3) through the IAIS multilateral memorandum of understanding (MMoU), which establishes a formal basis for cross-border cooperation and information exchange amongst supervisors around the world to enhance supervision of Internationally Active Insurance Groups (IAIGs). The Department should note that in selecting the best agreement to utilize, while the NAIC Master Information Sharing and Confidentiality Agreement (Master Agreement) addresses the sharing of information between state insurance departments, it does not include information sharing with other functional regulators, such as federal or international regulators, that may be participating in supervisory colleges.

The objective of the MMoU is for a signatory authority<sup>iii</sup> to be able to request from and provide to any other signatory authority having a legitimate interest, information on all issues relevant to regulated insurance companies (including licensing, ongoing supervision and winding-up where necessary) and to other regulated entities such as insurance intermediaries, where appropriate. The MMoU is essentially designed as an alternative vehicle for having every jurisdiction sign a bilateral confidentiality agreement with every other jurisdiction. Further, it facilitates the exchange of confidential information in the Supervisory College context. If all members of a Supervisory College are also signatory authorities of the IAIS MMoU, it would effectively eliminate the need for every Supervisory College member to enter into a bilateral agreement with every other Supervisory College member and/or the drafting of a Supervisory College specific agreement in order to ensure that confidential information can be freely exchanged between Supervisory College members. This mechanism has the potential to significantly improve and expedite the cross-border exchange of information between supervisors. The execution of a memorandum of understanding on either a bi-lateral or multi-lateral basis does not supersede state or federal law governing disclosure of information. The legal obligations and regulatory requirements concerning information sharing and disclosure placed on state insurance regulators remain in effect.

~~In addition to the legal requirements for information sharing, there are also practical requirements of expectations to consider. It should be understood that some jurisdictions and some insurance groups may have different views on communication. For example, some jurisdictions exclude people such as the holding company analyst, or the examiner in charge of the group. Therefore, it may be appropriate to describe to other regulators why department financial regulation staff may be involved in the college. In some jurisdictions, regulators seek~~

<sup>iii</sup> A “signatory authority” is defined in the IAIS MMoU Article 2 as “any insurance industry supervisor who is an IAIS member or is represented by an IAIS member [reference made here to the NAIC per the IAIS Bylaws Article 6 No. 2(b)] and following a successful qualification procedure has acceded to the MMoU by its signature.” Each U.S. state insurance regulator, as an IAIS member or represented by an IAIS member (the NAIC), is eligible to be a signatory authority.

## VI.J. Group-Wide Supervision – Supervisory Colleges Guidance

~~permission from the insurance group before releasing certain group information that may be sensitive. These are simply examples of the items to consider since they can have an impact on trust, which is key to any successful long-standing relationship.~~

**Chairing the Supervisory College/other Supervisory Duties**

As previously noted, ~~an immediate expectation of it is generally expected that~~ the group-wide supervisor ~~is serving~~will serve as the chair of all Supervisory Colleges, ~~although there are situations where this may not be the case.~~ In addition to serving as the leader for the college, the chair is expected to complete a number of activities prior to and subsequent to each college. The following lists some of these activities:

- Set the date for the meeting ~~(See below for further discussion).~~
- Conduct a group-wide supervisory review of the IAIG, including a group-wide risk assessment, and communicate the results to members of the supervisory college and, as appropriate, concerns or areas of focus to the head of the IAIG to assist in college planning
- Set the agenda for the meeting in coordination with other involved supervisors and ~~distributing~~distribute at least one week in advance ~~(See below for further ideas).~~ The potential list of agenda topics and company presenters should be discussed with the insurer for input to help maximize the effectiveness of the college.
- Record outcomes that are achieved at each meeting including points arising from the meeting (specifically, the individual to whom each task is assigned and the deadline when an action should be complete); ~~consider documenting in the form of minutes. It will be the responsibility of the Supervisory College to allow the college~~ to track individual items to make sure that the necessary action has been carried out.
- Liaison with insurer's designated college coordinator in obtaining information, their participation in the college and any related correspondence.
- Develop a preliminary crisis management plan (see below for further discussion)
- Consider for larger colleges preparing and updating a coordinated work plan. Consider using U.S. Supervisory Plan as starting point.
- Prepare, update and circulate as changes occur, a contact list of members.
- Require a periodic self-assessment of the effectiveness of the college ~~(See below for further discussion)~~

In addition to these items ~~identified in ICP 25~~, it is important to recognize that other expectations may exist from regulators and the US state should determine how to address such expectations. The following may be common examples of such other expectations of the group-wide supervisor:

- Set reporting requirements for the college, including specifying frequency (e.g., annual, quarterly, etc.) and type (technical provisions, issues raised as a result of on-site inspections, intra-group transactions, outsourced activities)
- Analyze data received from the group
- Promote willingness to work together with other regulators
- Provide guidance to other regulators on particular issues
- Improve college effectiveness not within the group-wide supervisor's purview. Therefore, it may be appropriate to encourage maximum participation from all members of the college.
- Allow college members to submit written comments prior to the college meeting if they are unable to attend due to resource constraints, timing of the meetings, language barriers, or any other reason, even though regulators of entities that are significant to the group are generally expected to attend.
- Draft minutes or action points for approval by the members

## VI.J. Group-Wide Supervision – Supervisory Colleges Guidance

- Circulate presentations and other materials for the meeting once information sharing-agreements are obtained from all college participants

**Understanding the Regulatory Roles of Supervisory College Members**

~~It is important for all participants in a Supervisory College to have a clear understanding of the regulatory mission of each of the regulatory bodies which are being considered for any Supervisory College. There can be important and significant differences amongst regulatory bodies which may be encountered by a diverse group of regulators if comprised of federal agencies and members from other countries. The regulated group's organizational structure and the personalities of the regulators involved will also have a large tendency to direct how the group organizes and conducts itself. This information could be accumulated and summarized into a Terms of Reference document, or some other related document.~~

**Key Functions of the Supervisory College Including Coordination Agreement/Terms of Reference and Work Plan**

One of the primary purposes of Supervisory Colleges is to facilitate coordination and communication between regulators. Consequently, one of the key functions of the college is to create the means to facilitate communication. Making this happen begins with the actions of the group-wide supervisor. As previously stated, state insurance regulators should be aware that other regulators may have other expectations when it comes to the group-wide supervisor. Specifically, Article 248 of the *European Union Solvency II Directive* indicates that the group-wide supervisor has a significant planning and coordination role, but also a more defined supervision review and assessment role and significantly more decision-making capacity. State insurance regulators should understand and be aware of these possible differences and seek to establish agreed upon expectations with the other involved supervisors. Understanding the specific expectations may be communicated through conference calls by the college members. These expectations once documented are often referred to as a “Coordination Agreement” or “Terms of Reference”. A ~~Terms of Reference document~~Coordination Agreement can serve as defining the expectations of the members of the purpose of the college, and can include clarification on why a particular supervisor was determined to be the lead supervisor(s), group membership, agreement on frequency and location of meetings and finally, the role and responsibilities of the group-wide supervisor. ~~As it relates to frequency and location of meetings members should strive to physically attend the meetings however members should be given the ability to participate by conference call. A sample “Terms of Reference” document is included in the appendix to this section. The supervisory work plan sets out timelines and deliverables and any tasks to be completed by college members based on key areas related to risks that are to be monitored within a certain time frame. Regular review and updating should be made to the supervisory work plan on a periodic basis.~~

**Different Approaches to College Structures**

In general, the majority of colleges that states attend, and lead are known as inclusive colleges. Under an inclusive college, there are no differences for the group-wide supervisor and other college members regarding participation in college work or access to information. More specifically, under this approach, the college would not use sub-colleges (e.g., regional colleges) or topical colleges where only certain members are invited to participate. This approach does not preclude the use of joint examinations between jurisdictions where two or more jurisdictions believe that they have a similar issue that applies to their legal entities. Other approaches can include a tiered approach, where there may be a US regional college, or a European college, or some other regional, with a separate world college. In these situations, the group-wide supervisor may be expected to attend each of these, or at least that has become the practice. Consequently, this may be more demanding. Finally, in some cases there may be core colleges that only involve the college members most significant to the business of the group. These may be useful in targeting discussions but may also create additional work for communicating the results back to other members of the world college. States should also be careful to consider the ramifications of these types of approaches on the existing information sharing agreements, as they may require additional more inclusive agreements if jurisdictions carry that opinion.

## VI.J. Group-Wide Supervision – Supervisory Colleges Guidance

**~~Minimum College Expectations - As (For U.S. States Determined to Be the Group-Wide Supervisor)~~****College Requirements for U.S. States Determined to be the Group-Wide Supervisor**

The following sets forth ~~a minimum set of examples~~ of regulatory procedures to be used by U.S. lead states when leading a Supervisory College. ~~Many of these items are further discussed in prior parts of this document but some are not and require additional judgment. States that act as group-wide supervisors are encouraged to develop additional internal processes for meeting planning and logistics to supplement these procedures.~~

**Initial College Procedures (most likely not applicable after first college meeting)**

- ❑ Begin to plan all of the relevant logistical items that are important to a successful college, including considering the schedule of other Supervisory Colleges as posted to the Supervisory College Calendar on iSITE+.
- ❑ Identify the entities that would fall within the scope of the group, either based upon information from annual holding company filings or through direct communication with the group, or both.
- ❑ Determine through various means if your jurisdiction may be considered the group-wide supervisor and proceed under this assumption.
- ❑ Make initial contact with other regulators that may also be considered the group-wide supervisor and informally suggest your state may be the group-wide supervisor. If there are no objections, proceed to planning the first Supervisory College.
- ❑ Develop and execute information sharing agreements necessary for the protection of confidential information that will be shared among college members. Acceptance of the wording of these agreements and the protections they provide are key to the insurer releasing college materials.
  - Consider establishing and maintaining a confidential information sharing tool or portal, with an appropriate level of access controls and monitoring in place, to collect and share information among college members that have entered into a Coordination/Information Sharing Agreement.
- ❑ At the college, present an initial Coordination Agreement or Terms of Reference document that summarizes various important aspects of the college collected prior to the college meeting, then discuss and adjust as deemed appropriate by members.
- ❑ At the college, present an initial Crisis Management Plan for discussion then adjust as deemed appropriate by members.
- ❑ At the college, direct a short discussion by each jurisdiction of their respective legal entity(ies), and the impact it (they) may have on the group. This type of discussion is not to be repeated after the initial meeting unless the impact is material, or if it is from the perspective of what is driving particular performance for the group as a whole.
- ❑ Develop a preliminary Supervisory Work Plan based on information gathered at the college with input from the college members.

**Initial and Ongoing College Meetings**

- ❑ Send to all of the appropriate jurisdictions, initial information regarding the potential for a Supervisory College meeting approximately six to nine months before the intended date (two to three months each conference calls) and modify the date to fit the needs of as many regulators as possible. Use of conference calls to discuss specific issues raised regarding the insurer will enable the regulator-to-regulator meeting immediately preceding the college meeting to be more efficient.



## VI.J. Group-Wide Supervision – Supervisory Colleges Guidance

- ❑ Develop a tentative agenda and distribute it eight weeks before the college to all other regulators who plan to attend, asking for changes in order to ensure each jurisdiction's needs are met. Refine the agenda as needed and redistribute to all regulators four weeks prior to the college.
  - The agenda should be focused on a regulators' shared view of the primary risks of the group. At the end of the meeting, college members should reach consensus upon the updated shared view of the primary risks of the group.
    - The primary risks of the group will vary but will require the same general understanding of the group's business strategy, risk management and governance processes, in addition to its financial, legal and regulatory position. Therefore, initial colleges should have an agenda that develops this same general understanding of each of these items. Primary risks can be determined prior to such an understanding, but such a list is expected to be modified over time as the college gathers more information each meeting.
  - The agenda should include presentations from the group regarding those topics selected by the regulators when voting on the agenda (either to the entire group, or breakout sessions on more specific topics). This can include things such as the following:
    - Strategic and financial overview
    - Material changes to the group since last meeting
    - Material plans and projects for the coming year
    - Governance and risk management
    - Identification of key risks
    - Capital planning and management
    - Stress testing
    - Interconnectivity
    - Non-regulated entities
    - Succession planning
  - The meeting should include targeted discussions on the primary risks of the group, or trends that suggest a modification to such a list. The ~~lead state group-wide supervisor~~ should consider utilizing a Group Profile Summary, or a similar document ~~in a form similar to such document or the Insurer Profile Summary,~~ to meet this objective and summarize the results of their group-wide risk assessment. This specifically includes a document that would focus on the branded risk classifications of the group.
    - Exchange/discuss qualitative and quantitative information and data either prepared by the regulator or by the group. The information shared should be based upon the regulators shared view of the primary risks of the group, including any evolving or new potential material risks identified by any member. Discuss at each college if the information is adequate or if further information is appropriate for ongoing review of the group.
    - The group should present on the implications and readiness of the group for work adopted within various jurisdictions (e.g., ORSA, reporting or model development for Solvency II, etc.)
- ❑ After the agenda topics/insurer presenters are identified by the college participants, contact the insurer's designated college coordinator to make certain the key personnel are available for the appropriate portions of the college meeting before finalizing the date.
- ❑ Discuss and agree on feedback to the group and where appropriate, solo/legal entities.

**VI.J. Group-Wide Supervision – Supervisory Colleges Guidance**

- ❑ Update and reach consensus upon a modified Coordination Agreement/Terms of Reference document.
- ❑ Update and reach consensus upon a modified Crisis Management Plan.
- ❑ Update and agree upon a modified Supervisory Work Plan including updates to risks and identification of individuals and the jurisdiction to whom each task is assigned and the deadline or frequency when an action should be complete. The updated Supervisory Work Plan should be updated and distributed to all members of the college ~~within approximately three weeks of the college meeting, or something more flexible if that is agreeable to college members.~~
- ❑ Record a summary of each meeting, documenting decisions that were reached. Distribute the summary to the participants ~~within approximately two weeks following each college meeting, or something more flexible if that is agreeable to college members.~~
- ❑ Distribute an updated contact list of members ~~within approximately one week following each college meeting, or something more flexible if that is agreeable to college members.~~
- ❑ Have each member of the college meeting discuss the effectiveness of the college and the need for any changes, and have each member complete a survey of its effectiveness.
- ~~❑ Using the information from the survey, prepare a summary of the self assessment of the effectiveness of the college and distribute to all members of the college within approximately four weeks following the college meeting, or something more flexible if that is agreeable to college members.~~

With regard to agendas, the above tries to capture the need for agendas that are focused on the risks of the group, which can be different from one group to the next. However, as Supervisory Colleges are intended to employ best practices because participating members are expected to attend other colleges, emphasis should be placed on asking all jurisdictions to provide suggestions to draft agendas.

**~~General College Guidance for U.S. State Determined to be the Group-Wide Supervisor~~**

~~As colleges evolve, providing consistency for what is appropriate in order that colleges are functioning effectively is important. Therefore, it is appropriate that the NAIC enhancements for Supervisory Colleges be updated to reflect the most current views. This Handbook encourages all states that have participated in international Supervisory Colleges to consider on an ongoing basis, the changes that should be made to this section of this Handbook, and to submit them to NAIC staff for discussion and possible adoption.~~

**Group Risks Perspective from Each Supervisory College Member**

As discussed previously, the Coordination Plan/~~Terms of Reference~~ document is intended to capture the specific expectations of each member of the Supervisory College. Understanding each member's expectation is critical to having a successful college. In order to meet the majority members expectations, it is suggested that the group-wide supervisor request input from other college members as necessary to identify group risk exposures and tailor the college agenda and supervisory workplan as necessary to address concerns. ~~state insurance regulator consider having some time set aside at the very first college where each college member is afforded the time to share their perspective with the group. The following is a list of the things the college may want to ask each member to provide, perhaps in a five to 10 minute presentation.~~

**Presentation of the Entities**

- ~~Simplified holding company chart of the local entities~~
- ~~Premium written by local regulated insurer by line of business and/or by product~~
- ~~Affiliated relationships and any major transactions, including pooling arrangements and other reinsurance relationships~~

**Market Share**

- ~~Major lines of business~~

## VI.J. Group-Wide Supervision – Supervisory Colleges Guidance

- Gross-written if not identified above
- Share of the local market (at the branch or state level if possible) and rank in the country

Key Financial Information

- Size of the balance sheet for most recent two years (or more current if available)
- Profit and loss statement for most recent two years (or more current if available)

Risks

- Reserves gross and net of reinsurance for most recent two years
- Primary risks to which the entity is exposed
- Exposure to other entities within the group
- Any other material risks

Specific Issues of the Insurer

- Status of any current or recent financial or market conduct examinations
- Any recent or pending material transactions including mergers, acquisitions and/or reorganizations
- Any regulatory action

**Crisis Management Plan – (Note: Sample Plan is available within iSITE+ – FAH Report Links)**

Many regulators believe that Supervisory Colleges are most effective when mutual cooperation and mutual trust is achieved. This attribute proves most beneficial and perhaps needed in times of financial difficulties or financial distress for the company. Although regulators are constantly trying to avoid situations of distress on the company, they must all be prepared for such situations to occur. To that end, the Supervisory College should engage in a conversation about the issue and how the college will work in these situations. The intent is for these discussions to occur at the inception of the college itself, and then be documented and approved formally as early as possible. Such plans should attempt to be flexible and should consider the need to adapt to the particular individual company situation. In fact, in most Supervisory Colleges, it's difficult to define a crisis plan because it is impossible to know how the college will react. In most cases, the college will agree that a physical meeting would be desirable as soon as practical, but that it may be necessary to meet by conference call as soon as possible.

Regular Assessment of Effectiveness

At the outset of establishing a Supervisory College, the group wide supervisor should discuss the need to regularly assess the effectiveness of the Supervisory College. Such an evaluation may consider the original "Terms of Reference" document as this outlines the participating member expectations. In addition, the college should determine the extent to which it believes there could be some regulatory gaps in the supervisory process, or areas of the group that have not been considered. Once the group wide supervisor completes this assessment, it should share with all members of the college allowing the involved regulators to provide input into the assessment. The group wide supervisor should also consider any prior college experience, and consider improvements for that "baseline" meeting (e.g., what worked, what did not, etc.).

**College Meetings – As the Group-Wide Supervisor****Setting the Date for the Meeting**

Setting the date for the Supervisory College is critical and requires extensive planning. It is suggested by state regulators that have planned Supervisory Colleges that plenty of advance notice is given to participants of each meeting to attendees with 90 days representing the optimal minimum amount of notice. However, many of these same regulators have suggested that it is better to establish the date of the college, or approximate date, six months in advance. As a result, it is suggested that state insurance regulators start planning the Supervisory

**Commented [NAIC2]:** The Drafting Group is proposing that this guidance be removed from the Handbook and be posted online for use as a best practice tool for regulators, as opposed to official guidance.

**Commented [NAIC3]:** Covered in bullet form above, additional guidance not deemed necessary.

## VI.J. Group-Wide Supervision – Supervisory Colleges Guidance

College nine months before its expected date. The below section on other logistical aspects for the meeting demonstrate the significance of the various items that must be considered in planning the meeting, and therefore the need for extensive planning to occur far in advance of the actual meeting. Planning should also include the insurer. It is important to discuss the general time frame with the insurer, as set time tables are often in place for board meetings, and it may be productive to have the flexibility of using the most current board presentations in the college materials, as applicable, provided those same materials are expected to also meet the expectations of the collective supervisors.

Experienced regulators have also noted that the length of the meeting should be specific, with consideration given to allowing each member to fully explain its viewpoints, methods and processes. Supervisory college meetings should always have a clear purpose (See note regarding the chairs responsibility to record outcomes/assignments for each meeting). In many cases, the portion of the meeting with the insurer can be addressed in one full day college meeting. However, specific circumstances may differ.

#### Planning Other Logistical Aspects for the Meeting

Tentative research should be completed by the lead state to determine the availability of hotel facilities prior to ascertaining how many regulators may be attending. Once a decision has been made that the content for a college is sufficient to substantiate the costs, state insurance regulators may want to consider the timing of such college, and some states suggest that a Supervisory College only be scheduled during the spring or the fall to avoid potential weather related concerns. The primary reason it is important to schedule a college during the spring or the fall is to increase the chances of regulators from other countries to attend the college and therefore have a successful one. Clearly, the amount of work and costs that must be undertaken to administer a college is significant therefore, it is unreasonable to think that another Supervisory College could be administered on short notice due to a lack of participation from a couple of other countries.

Another reason to schedule a college well in advance of its expected date is to ensure that senior management of the insurance group is available the while the college is taking place. Most state insurance regulators believe that it is critical that the CEO, CFO, CRO and Chief Legal Counsel are all available during the college when appropriate senior regulators are also in attendance. The scheduling of the college should begin with establishing a range of dates to ensure attendance of these officers. If the management/officers are not in attendance at certain times of the college, it should be communicated and made clear that they need to be available to supervisors if questions arise that requires their immediate explanation.

Once the general dates and the potential number of college attendees are identified, the insurer's designated college coordinator can then locate appropriate meeting accommodations. The best site would allow meals and refreshments to be brought into the meeting, which would reduce the need for participants to travel away from the site for meals. Further, consideration should include facilities that allow participants to communicate with their home office and include breakout rooms with phone, computer, and printer capabilities that can also be used for subgroup meetings as needed. It has also been suggested that the meeting space be set up in a "U" shape to maximize the ability to engage each of the participants. A "U" shape room also works well with the need for projectors and screens (for presentations) and use of whiteboards and markers for discussion points. These details are usually worked out between the lead state and the insurer's designated college coordinator.

Once the location of the meeting is identified, the state insurance regulator should immediately proceed to obtain hotel accommodations that can support all of the attendees and is in close proximity to the meeting location, seeking assistance from the group designated college coordinator as deemed appropriate between the lead state and the group. Hotels which provide for a portal website that gives each participant the ability to make their reservations online is ideal. The dates selected should allow attendees adequate travel time to and from the meeting site.

An evening group dinner is an excellent way for Supervisory College participants to better acquaint themselves and enhance the flow of communication both during and after the Supervisory College. Another important point is to determine the communication that will be provided. Specifically, it will be important to establish that most

**VI.J. Group-Wide Supervision – Supervisory Colleges Guidance**

of the college communication will occur in English. However, it may be appropriate to arrange for translators to be engaged for some other languages, and then for booths to be established where such communication will occur within the room set-up. Again, this may be necessary to consider before establishing the location, and as evidenced with the various important details above, may require the type of lead time suggested previously for establishing such logistics.

As part of its preliminary duties, the group-wide supervisor should determine if the other Supervisory College participants will seek to recoup expenses for attending the Supervisory College, and if so, how the group-wide supervisor be involved with this activity. Many jurisdictions do not seek direct reimbursement for expenses associated with attending a Supervisory College. The group-wide supervisor should identify the process it will use early in the planning stages of a Supervisory College and communicate this to the other states that will be participating in the college.

One final logistical consideration for colleges is the costs associated with them. Some within the industry have suggested budgets be used by regulators related to Supervisory Colleges. This position may be driven from the standpoint that in the U.S., Model #440 provides that the state's costs associated with college may be charged to the company. The inclusion of this provision within that NAIC model was intended to prevent limited state resources as a reason that may otherwise preclude key state regulators from attending such meetings regarding the risks of the group with other key national and international regulators. Given its desirability that all major jurisdictions coordinate their understanding and work related to the group or the insurers within the group, this generally has not been disputed. However, the costs themselves can be significant; therefore, it is reasonable that the states' attending the college do what they can to limit such costs to what is reasonable. It may also be helpful if the group-wide supervisor can provide information to the group that allows the members to make estimates of the costs and manage the costs to the extent that is feasible. For this reason, some state regulators have suggested a group designated college coordinator can be used by an insurance group as a means to handle different logistical aspects of the meeting in a manner that helps to keep costs to a reasonable level.

**Setting Agendas**

In the initial college, the focus will be on establishing the college, the group-wide supervisor, the membership, the "Terms of Reference" document, and related details. Some state insurance regulators may wish to complete these activities of the college via conference calls, or e-mail in order to minimize costs and maximize effectiveness by fitting the college into busy schedules. However, some believe that face-to-face communication cannot be replaced in order to make sure every member of the college is completely engaged in the discussion and issues. Some even suggest that a phone-in number should not be an option for attending a college, because it is likely that a phone attendee would not be as engaged and would be easily distracted. One downfall to full engagement by all members is the difficulty in setting an agenda that can be adhered to within the allotted time. In some cases, this may result in the need to establish approximate time allotments per topic. Most state insurance regulators agree with the practicality of setting such limits, provided the discussion on a particular important topic is not artificially ceased and the group-wide supervisor attempts to find an appropriate place to end the discussion on a topic.

There are a number of other considerations for what should be discussed and considered within the first initial Supervisory Colleges. The following enumerates some potential agenda items for the group-wide supervisor to consider:

**Initial Supervisory College Agenda Topics**

- Introductions
- Discuss individual college members' views regarding role and responsibilities of the group-wide supervisor
- Discuss plans for documenting agreements into a Terms of Reference document

**VI.J. Group-Wide Supervision – Supervisory Colleges Guidance**

- Hear initial high-level presentation from the insurance group regarding its business structure, significant operations, interconnectivity (including non-insurance affiliates), including ownership and management structure and overall operating results
- Discuss material risks of the group and format for future discussion
- Discuss a preliminary Supervisory Work Plan
- Discuss/establish a crisis management plan
- Set the date and time for the next meeting

**Next Meeting of Supervisory College Agenda Topics**

- Introductions
- Review and reach consensus on the “Terms of Reference” document
- Recap discussions regarding material risks of the group
- Secondary presentation/deeper dive from the insurance group regarding its business plan, financing strategy and perceived risks and risk mitigation strategies. Consider requesting specific presentations regarding:
  - Underwriting strategies
  - Investment strategy
  - Reinsurance strategy and program
  - Capital adequacy at the group level including a discussion of internal model development and assumptions (group’s Own Risk and Solvency Assessment)
  - Corporate governance and internal fit and proper requirements
  - Interconnectivity (including reinsurance, guarantees, securities lending and non-insurance affiliates)
  - Updated operating results
- Discuss the possibility of a regulator to regulator session with external auditors to discuss their audit approach, and material risks (obtain clearance from the insurance group before proceeding)
- Discuss the group wide supervisor’s initial assessment of the group
- Share views and assessments on the group as a whole on those risks deemed significant to the members
- Develop common understanding amongst supervisors on the overall group-wide risk profile relative to the major insurance aspects of the group
- Identify a consensus regarding any changes in the assessments of the company’s group-wide risks (strengths and weaknesses)
- Identify any group wide efforts that the members need to focus on
- Update the Supervisory Work Plan
- Identify any correspondence deemed necessary to be distributed to all members of the group
- Set the date and time for the next meeting

**Ongoing Meetings of the Supervisory College Agenda Items**

- Introductions

## VI.J. Group-Wide Supervision – Supervisory Colleges Guidance

- Recap discussions and follow-up from past meeting
- Invite the group-wide supervisor to share an assessment of the group
  - Continue to share views and assessments of both specific insurers and of the group as a whole on those risks deemed significant
    - Discuss modifications to the preliminary group-wide assessment by the group-wide supervisor, including changes to the format of the assessment regarding business structure and overview, assessment of profitability, leverage, liquidity and overall financing position/capital adequacy
    - Consider added documentation for discussion of reinsurance and other forms of risk transfer where material to the perceived risks of the group
    - Consider added documentation for other intragroup transactions and exposures, including intragroup guarantees, possible legal liabilities, and any other capital or risk transfer instruments
    - Consider added documentation for internal control mechanisms and risk management processes, including reporting lines and fit and proper assessment of the board, senior management and the propriety of significant owners
- Selected ongoing presentations from the insurance group regarding its risks and changes. This may include but should not be limited to, having each of the business unit heads present on each of their areas.
- Continue to refine the assessments of the company's group-wide risks (strengths and weaknesses)
- Identify any group-wide efforts that the members need to focus on
  - Consider coordinated efforts (examinations) of a particular area (e.g., internal audit, actuarial function or risk management processes)
  - Consider break-out groups to hear presentations on specific topics (e.g., specific product or economic trends in the industry and company plans for addressing)
  - Breakout groups can also be used as a mechanism for focused discussions. These can be organized by region, type of business, risks, and can present brainstorming sessions where the group lists various issues or concerns, prioritizes them, and then the breakout groups separately present their views to all of the supervisors attending the college meeting.
- Update the Supervisory Work Plan
- Identify any correspondence deemed necessary to be distributed to all members of the group
- Discuss the effectiveness of the Supervisory College
- Set the date for the next meeting

**Output**

Most state insurance regulators agree that it is important for each participant of a Supervisory College to leave with clear outputs and takeaways. Specifically, the college members should agree on the primary risks of the group and how the supervisors are going to monitor such risks. Additionally, most state insurance regulators believe that each insurance group should set up a secure website where the insurance group can post information that may have been requested by the college, or that the insurance group believes is important to provide an update to the various college participants. As part of the Supervisory College, the group-wide supervisor should obtain contact information for each participant and share the information with all the participants during or immediately after the college. State insurance regulators may want to consider providing

## VI.J. Group-Wide Supervision – Supervisory Colleges Guidance

~~such information to the insurance group, so it can tabulate such information to minimize the resource impact of this effort. This information can be useful and valuable in facilitating subsequent communication with members regarding follow-up issues.~~

**Commented [NAIC4]:** The Drafting Group is proposing that this guidance be removed from the Handbook and be posted online for use as a best practice tool for regulators, as opposed to official guidance.

**College ~~Meetings-Expectations~~ - As the Lead State but Not the Group-wide Supervisor**

The following are suggestions relating to the role of the U.S. lead state to function as the U.S. contact for parent holding companies domiciled in other countries.

- Communicate on a consistent basis with applicable international regulators ~~through the voluntary submission of information via the Web-based NAIC International Supervisory Colleges Request Form~~
- Attend Supervisory Colleges and ~~for~~ informal conference calls
- Provide consistency in who participates in the Supervisory College for continued building of international relationships

The U.S. lead state plays a key role in coordinating communication to and from the international holding companies to the non-lead states.

The U.S. lead state also provides a financial review of the international holding companies, and must:

- Have a good understanding of the holding company organizational structure
- Keep current of the financial review of the ultimate controlling person's financial statements and those of key subsidiaries
- Keep current of the significant events that impact the holding company system (e.g., financial, market, stock, catastrophic, etc.)
- Maintain contact with the international holding companies and the international regulators
- Coordinate the sharing and requesting of information where appropriate

~~After participating in a supervisory college session, the U.S. lead state is encouraged to:~~

**~~Summary and Conclusion~~**

- Develop and document an overall summary and conclusion regarding the college
- Describe structure of college, attendees, key risks identified, etc.
- Identify key observations and risk noted during the Supervisory College
- Coordinate and communicate follow-up on key takeaways to relevant regulators, including in-house state departments (such as examination, actuarial, rates and forms, etc.)
- Update the Holding Company System Analysis if there are observations from the college that have a material impact on the view of the group
- ~~Update the Group Profile Summary and Supervisory Plan if there are observations from the college that have a material impact on the view of the group.~~

**U.S. Based IAIG Considerations**

~~While the guidance included in this chapter is generally applicable to all supervisory colleges, there are some specific considerations and requirements for IAIG supervisory colleges that should be followed by U.S. group-~~



**VI.J. Group-Wide Supervision – Supervisory Colleges Guidance**

wide supervisors as summarized below. For additional background information and best practice suggestions, please see ICP 25.

- **Frequency of College Sessions** – IAIG college sessions are expected to be conducted at least annually (in-person or via conference/video call), with the first session taking place in a timely manner after the identification of the IAIG.
- **Initial College Session** - Priorities for the initial supervisory college meeting should include:
  - Confirming the group-wide supervisor and the structure of the supervisory college
  - Describing the scope of group-wide supervision including an explanation from the group-wide supervisor on the scope of group supervision and any entities excluded
  - Discussing proposed coordination agreements
- **Ongoing College Sessions** – The group-wide supervisor should ensure that the IAIG’s supervisory college discusses the most relevant elements of the group-wide supervisory process and the supervisory plan by coordinating with other involved supervisors. The agenda set by the group-wide supervisor should provide for discussion of at least the IAIG’s:
  - Corporate governance framework
  - Enterprise risk management
  - Main risks and intra-group transactions
  - Financial position
  - Regulatory capital adequacy and compliance with supervisory requirements
  - Coordination of ongoing supervisory oversight activities and examinations (if appropriate)
- **Communication and Information Exchange** – The members of the IAIG’s supervisory college should communicate and exchange information on an ongoing basis (i.e., in conjunction with and outside of formal college sessions) in accordance with information sharing and confidentiality agreements.
- **Review and Assessment of Group Capital** – The members of the IAIG’s supervisory college should obtain, discuss and assess group capital information from the IAIG, including information provided in the GCC and ORSA Summary Report. In addition, a discussion of group capital may include information provided through the Aggregation Method, or the Reference Insurance Capital Standard (ICS) as reported to the IAIS, if applicable and available.
  - The discussion by group-wide supervisors and supervisory colleges could include: 1) a comparison of group capital calculations (current or under development) to the Reference ICS; 2) the extent to which material risks of the IAIG are captured; 3) the appropriateness and practicality of the calculations required, and 4) any difficulties in implementing the group capital calculations by the IAIG or the group-wide supervisor.
- **Crisis Management Group (CMG)** – The group-wide supervisor establishes a CMG for the IAIG with the objective of enhancing preparedness for, and facilitating the recovery and resolution of, the IAIG.
  - There should be clear membership conditions and members should include the group-wide supervisor, other relevant involved supervisors, and relevant resolution authorities (if possible)
  - The CMG should keep under active review the process for sharing information within the CMG and with host resolution authorities not represented, the processes for recovery and resolution planning for the IAIG and the resolvability of the IAIG.

## VI.J. Group-Wide Supervision – Supervisory Colleges Guidance

- The group-wide supervisor, in consultation with the CMG, should determine whether to require that the IAIG develop a formal recovery plan<sup>iv</sup> to establish in advance the options to restore the financial position and viability of the IAIG in a crisis situation, as well as how and when the plan should be updated on an ongoing basis. The role, priorities, and approach of any CMG should be proportional to each group's organization, capital structure, characteristics, and financial condition.
  - The recovery plan should be utilized by the CMG and the IAIG to take actions for recovery if the IAIG comes under severe stress.
  - It is recommended the group-wide supervisor considers the IAIG's nature, scale and complexity when setting recovery plan requirements, including the form, content and detail of the recovery plan and the frequency for reviewing and updating the plan.
  - The head of the IAIG should maintain management information systems that are able to produce and communicate information relevant to the recovery plan on a timely basis.
  - Regardless of whether a formal recovery plan is required, the ORSA Summary Report should discuss at a high-level the severe stresses that could trigger a recovery plan and the recovery options available
- Resolution plans<sup>v</sup> are put in place at IAIGs where the group-wide supervisor and/or resolution authority, in consultation with the crisis management group, deems necessary. Where a resolution plan is required, the group-wide supervisor and/or resolution authority, in coordination with the IAIG CMG should:
  - Determine whether a resolution plan is necessary, including consideration of factors such as size and complexity of the IAIG;
  - Require relevant legal entities within the IAIG to submit necessary information for the development of resolution plan;
  - The head of the IAIG should maintain management information systems that are able to produce and communicate information relevant to the recovery plan on a timely basis.
  - Regularly undertake resolvability assessments to evaluate the feasibility and credibility of resolution strategies, in light of the possible impact of the IAIG's failure on policyholders and the financial system and real economy in the jurisdictions in which the IAIG operates; and
  - Require the IAIG to take prospective actions to improve its resolvability.
- The group-wide supervisor puts in place a written coordination agreement between the members of the IAIG Crisis Management Group, which covers the following:
  - Roles and responsibilities of the respective members of the IAIG CMG
  - The process for coordination and cooperation, including information sharing, among members of the IAIG CMG

<sup>iv</sup> Refer to ICP CF 16.15 and the IAIS "Application Paper on Recovery Planning" for more background information and possible best practice guidance regarding: governance, monitoring, updating the recovery plan, and key elements of a recovery plan (e.g. stress scenarios, trigger frameworks to identify emerging risks, recovery options, communication strategies, and governance). (<https://www.iaisweb.org/home>)

<sup>v</sup> Refer to ICP CF 12.2 and 12.3 and the Application Paper on Resolution Powers and Planning for more background information and possible best practice guidance including: approach to determining if resolution plans are needed, and key elements of a plan (e.g., resolution strategies, financial stability impacts, governance, communication, impact on guaranty fund systems). (<https://www.iaisweb.org/home>)

## VI.J. Group-Wide Supervision – Supervisory Colleges Guidance

**COORDINATION AGREEMENT/TERMS OF REFERENCE****for the COMPANY Supervisory College**

**General Statement:** The purpose of this Supervisory College is the development and implementation of an ongoing flexible mechanism to coordinate the exchange of valuable information pertaining to [COMPANY NAME] and its subsidiaries, amongst and for the benefit of those regulatory supervisory authorities responsible for the financial regulation of [COMPANY NAME] and its subsidiaries. The Supervisory College serves as a permanent platform for facilitating the exchange of information, views, and assessments enabling its members to gain a common understanding of the risk profile of the group to enhance risk-based supervision and thereby enhance solo supervision efforts.

**Terms of Operation:** Supervisory College members shall ensure the safe handling of confidential supervisory information by signing the Confidentiality Agreement specific to the College of Supervisors of [COMPANY NAME] (the “Confidentiality Agreement”) thereby facilitating the efficient exchange of information among its members. The Supervisory College has the flexibility in its operation to identify and address immediate, developing, actual and prospective risks. The Supervisory College will discuss efforts to involve Supervisory College members in possible future coordinated supervisory actions and/or arrangements when deemed suitable.

**Membership:** Supervisory College membership will change over time due to Changes in [COMPANY NAME’s] operations, size and complexity. A current listing of the Tier I, Tier II, and Tier III members are identified in Schedule A attached hereto. The Tier I members will continually evaluate whether any changes in membership are required based on changes related to the nature, size and complexity of [COMPANY NAME].

**Chair of the College:** Tier I members will appoint a supervisor (group wide chair) as the chair of the Supervisory College and may appoint sub-group chairs when deemed appropriate. The chair is responsible for organizing and scheduling meetings as well as ensuring that appropriate information is disseminated to members. The chair should propose the agenda for the meetings and incorporate the views and opinions of other Supervisory College members. A chair need not be a specific person as the chair could be a particular supervisory authority or title of a person at such supervisory authority.

**Scope of Activities:** The Supervisory College will strive to have a central focus on the following issues at a group level:

- Solvency and financial stability of the insurance group
- Assessment of intragroup transactions and exposures
- Internal control and risk management within the insurance group
- Appropriate actions to mitigate risks identified
- Crisis management

To assist in these central activities, the Supervisory College members will discuss possible arrangements for managing crisis situations based on the risk profile of the group. In addition, where applicable, Supervisory College members will discuss possible procedures for dealing with issues such as breaches of solvency positions and/or the crystallizing of risk exposures.

Information from the Supervisory College will attempt to incorporate references towards the applicability of [COMPANY NAME] and the stated overall strategic plans of its insurance subsidiary(ies).

Supervisory College members are encouraged to continuously notify their fellow Supervisory College members through the Supervisory College mechanism on any matters deemed relevant to enhance risk-based supervision.

**Commented [BEJ5]:** The Drafting Group is proposing that this guidance be removed from the Handbook and be posted online for use as a best practice tool for regulators, as opposed to official guidance.

**VI.J. Group-Wide Supervision – Supervisory Colleges Guidance**

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**Frequency and Locations of Meetings:** The Tier I members will attempt to agree to meeting dates and locations that are likely to ensure the participation of as many of the members as possible. When it is not feasible for supervisors to be present at a meeting, best endeavors will be made to allow participation by other means such as by conference call or other electronic means. Tier I members will attempt to meet quarterly, and will attempt to conduct at least one meeting annually in person. The Tier I members may call a meeting together on short notice in the event of an emergency situation. Participation and/or involvement of Tier II and Tier III members will be addressed at least annually.

**Meetings:** At each meeting, each Tier I member should attempt to provide an update on any relevant material event(s) and/or any new information which could have a significant impact on the group-wide risk profile.

**Schedule A**  
**{Supervisory College Members}**

**as a part of the**

**Terms of Reference**  
**for the COMPANY Supervisory College**

**Tier I Members:**  
COUNTRY  
COUNTRY  
UNITED STATES – STATE  
UNITED STATES – STATE

**Tier II Members:**  
COUNTRY  
UNITED STATES – STATE

**Tier III Members:**  
COUNTRY  
UNITED STATES – STATE

## VI.J.1. Group-Wide Supervision – Supervisory Colleges – Crisis Management Plan Sample

~~[Insurance Department Letterhead]~~**Crisis Management Plan**~~For the [Group Name] Supervisory College~~**Introduction**

~~The Insurance Department, as lead regulator (“Group Supervisor” or “Group Lead Regulator”) of the [group name] (“Group”) insurance holding company system, and other regulators of the group and its regulated affiliates (collectively “regulators” each a “regulator” or “college members” each a “member”) may refer to this Crisis Management Plan (“plan”) for managing communication, responsibilities and coordinating regulatory actions relating to the groups regulated and non-regulated affiliates within the framework of the group holding company system.~~

~~This plan for this group will support the management of an arising crisis situation by the Department standing as the group lead regulator, and the college participants as defined by the memorandum of confidentiality pertaining to this specific college.~~

~~This document is designed to provide a framework for managing communication, responsibilities and coordinating regulatory actions by:~~

- ~~• Defining the responsibilities and channels for sharing information between college members~~
- ~~• Providing a current contact list of supervisory college members (Appendix 1)~~

~~College Members shall cooperate closely in a crisis situation, in order to coordinate the actions of the supervisory authorities responsible for the management and resolution of the crisis. This cooperation will be according to their national law and may include other relevant supervisors involved in the crisis management process as necessary.~~

~~The Department will coordinate crisis management activities, encouraging the cooperation of actions as well as the exchange of information.~~

**Definition of a Crisis Situation**

~~A crisis situation is defined as any situation or event, regardless of its origin, that happens unexpectedly, demands immediate attention, and could materially affect or impair the financial condition of either the overall group or an insurance entity in a country or jurisdiction with a potential cross-border impact on one or more entities of the Group.~~

~~Whenever a potential emergency situation is identified by a member of the Supervisory College regarding an entity that it supervises, the regulator should inform the Department as soon as possible. In any case, if any of the circumstances listed below occur at an entity level, the member regulator should alert the Department.~~

- ~~• Significant deterioration in a legal entity’s risk-based capital ratio~~
- ~~• Significant deterioration in a legal entity’s solvency position (below locally accepted criteria)~~
- ~~• Major violation of legal requirements, e.g. coverage of technical reserves~~
- ~~• Danger of failure of a utilized reinsurer (external or internal)~~
- ~~• Public investigation against managing body of an undertaking (e.g. fraud)~~
- ~~• Macro-economic and financial developments as well as insurance sector specific developments which may affect the financial soundness of the group (contagion risk, etc.)~~

**Commented [NAIC1]:** The Drafting Group is recommending this entire section for removal from the Handbook and posting online to be updated and maintained for regulator use as a best practice tool, but not official NAIC guidance.

**VI.J.1. Group-Wide Supervision – Supervisory Colleges – Crisis Management Plan Sample**

~~The Department will share the above information with the other college members within a reasonable time frame.~~

~~The Department should also provide information to the college members pertaining to:~~

- ~~• Significant deterioration in the group's solvency position~~
- ~~• Unbalanced distribution of available statutory capital and surplus within the group, which is an indicator of problems at a specific legal entity~~
- ~~• Major violation of legal requirements~~
- ~~• Liquidity problems caused by the corporate structure or member entities~~
- ~~• Imminent danger of insolvency of an undertaking of the group~~
- ~~• Major downgrading of a significant subsidiary's financial strength rating or group debt rating~~
- ~~• Macro economic and financial developments as well as insurance sector specific developments that may affect the financial soundness of the group (contagion risk, etc.)~~

**Crisis Contact List Procedures**

~~All college members involved in the supervision of the group will have specific personnel and contact information as listed in the crisis contact list in Appendix 1. This contact list should be updated as each annual supervisory college is held, or as requests are made to the Department by members of the college.~~

**Communication Tools**

~~The participating regulators will provide the Department with the necessary information to allow for an accurate understanding of the nature of the situation. The Department will then distribute its understanding of the situation to the college members.~~

~~In order to manage the exchange of information smoothly and efficiently during a crisis situation, the college may use the most efficient means depending on the situation, such as:~~

- ~~• Conference calls /video conference~~
- ~~• E-mails~~
- ~~• Bilateral or multilateral meetings among College Members~~

~~This communication will be coordinated by the Department or by other college members as may be deemed appropriate by the Department for a particular crisis.~~

**Crisis Assessment**

~~Based on the information received, the Department will assess the nature of an emergency situation and its implications for the group in conjunction with the college members. Regulators should perform their own assessment of the crisis and implications to both their legal entity and the group as a whole. Discussions between the Department and college members should include discussion for the crisis at hand and what actions should be undertaken. The decision may be made to monitor the situation or specific factors, contacting other regulators who may have involvement or jurisdiction over portions of the group. Or the determination may be made to intervene, and the discussion should include the intervention mechanisms available to regulators.~~

## VI.J.1. Group-Wide Supervision – Supervisory Colleges – Crisis Management Plan Sample

**Crisis Management**

The Department is responsible for planning and coordinating the management of the emergency situation. This will be performed in close cooperation with the college members so that a consistent and coordinated plan of action can be drafted and implemented.

After having assessed and reached a common understanding of the nature of the crisis and its implications, the Department may wish to establish within the college a smaller supervisory team for handling the crisis situation and designate, on the basis of the contact list in Appendix 1, a crisis management team. This might be especially useful if only part of the group is affected. The Department will inform the college members of the establishment of such a team.

Led by the Department, based on the common assessment, the crisis management team should analyze the need, scope and conditions for any supervisory actions to be taken. The analysis should define the following elements:

Which actions are needed?

- What cooperative measures with the company exist that may be helpful?
- What regulatory measures are available at either a holding company level or at a legal entity level (in various involved jurisdictions)?
- If multiple actions may be required, what would the ideal sequence and implementation schedule be?
- What would the ideal outcome be of such actions?
- Would these proposed actions generate unintended consequences and what would their impact be on?
  - The company
  - The regulator
  - The marketplace
  - The industry
- How would these actions be communicated to the company and college participants, as well as other potentially involved parties?

Supervisory actions and information sharing should be coordinated within the supervisory college in order to avoid inconsistencies.

**Other Communication Items**

The Department is in charge of coordinating the College internal communication at each stage of the crisis.

College members should coordinate the external communication of crisis related information. The Department is normally responsible for co-coordinating the public communication, as required, at each stage of the crisis. Again, this should be done in conjunction with the college members and should consider the possibility of exercising discretion over the information to be to ensure that market confidence is not adversely affected.

In the case when one regulator is obliged to make a separate public statement, it should be ensured:

- Maximum possible coordination with the other regulator and college members, which should be prepared to respond promptly.
- All Regulators should be informed about the statement before its release.
- No use of information delivered by one regulator to another will be made without the consent of the authority delivering the information.